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Commissary Agency (DeCa) decision making
if grocery industry financial reporting formats
and methodology is utilized

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THESIS

POTENTIAL IMPROVEMENTS IN DEFENSE
COMMISSARY AGENCY (DeCA) DECISION
MAKING IF GROCERY INDUSTRY FINANCIAL
REPORTING FORMATS AND METHODOLOGY
IS UTILIZED

by

Robert E. Ballenger

June, 1997

Thesis Co-Advisors:

Gordon E. Louvau
William R. Gates

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Form Approved OMB No. 0704-0188

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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------|
| 1. AGENCY USE ONLY (Leave blank) | | 2. REPORT DATE June 1997 | 3. REPORT TYPE AND DATES COVERED Master's Thesis |
| 4. TITLE AND SUBTITLE POTENTIAL IMPROVEMENTS IN DEFENSE COMMISSARY AGENCY (DeCA) DECISION MAKING IF GROCERY INDUSTRY FINANCIAL REPORTING FORMATS AND METHODOLOGY IS UTILIZED | | | 5. FUNDING NUMBERS |
| 6. AUTHOR(S) Robert E. Ballenger | | | |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey CA 93943-5000 | | | 8. PERFORMING ORGANIZATION REPORT NUMBER |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES) | | | 10. SPONSORING/MONITORING AGENCY REPORT NUMBER |
| 11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. | | | |
| 12a. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution is unlimited. | | | 12b. DISTRIBUTION CODE |
| 13. ABSTRACT (maximum 200 words) The Defense Commissary Agency (DeCA) holds a unique position within the Department of Defense (DoD) by being the only agency that runs a self-sustaining operation. As such, its operations run closely to that of the private sector, in particular the grocery industry. DeCA currently utilizes a standardized federal reporting format for its three principal statements, per Office of Management and Budget guidelines. The Statement of Cash Flows is the only statement of the three whose format is conducive to providing beneficial information to an external user (Congress, citizens, etc.). The Statement of Financial Position and Statement of Operations (and Changes in Net Position) formats, on the other hand, provide useful information to the Office of Management and Budget, but not to the external user. This thesis examines DeCA's financial statements, and discusses the shortcomings of the two statements' formats. It further proposes new formats which are more aligned with grocery industry formats, and conducts comparative analysis with two grocery firms and the grocery industry as a whole. | | | |
| 14. SUBJECT TERMS Financial Management, Defense Commissary Agency, Financial Statements, | | | 15. NUMBER OF PAGES 98 |
| | | | 16. PRICE CODE |
| 17. SECURITY CLASSIFICATION OF REPORT Unclassified | 18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified | 19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified | 20. LIMITATION OF ABSTRACT UL |

NSN 7540-01-280-5500 Standard Form 298 (Rev. 2-89)

Prescribed by ANSI Std. Z39-18 298-102

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**POTENTIAL IMPROVEMENTS IN DEFENSE COMMISSARY AGENCY
(DeCA) DECISION MAKING IF GROCERY INDUSTRY FINANCIAL
REPORTING FORMATS AND METHODOLOGY IS UTILIZED**

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Submitted in partial fulfillment
of the requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL

June 1997



ABSTRACT

The Defense Commissary Agency (DeCA) holds a unique position within the Department of Defense (DoD) by being the only agency that runs a self-sustaining operation. As such, its operations run closely to that of the private sector, in particular the grocery industry.

DeCA currently utilizes a standardized federal reporting format for its three principal statements, per Office of Management and Budget guidelines. The Statement of Cash Flows is the only statement of the three whose format is conducive to providing beneficial information to an external user (Congress, citizens, etc.). The Statement of Financial Position and Statement of Operations (and Changes in Net Position) formats, on the other hand, provide useful information to the Office of Management and Budget, but not to the external user.

This thesis examines DeCA's financial statements, and discusses the shortcomings of the two statements' formats. It further proposes new formats which are more aligned with grocery industry formats, and conducts comparative analysis with two grocery firms and the grocery industry as a whole.

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ACKNOWLEDGMENT

The author would like to express his gratitude to Mr. Russell Zimmerman of the Defense Commissary Agency for his time and assistance. This endeavor would not have been possible without his help. Heartfelt thanks to Professor Gordon Louvau and Professor Bill Gates for their patience, guidance, and support throughout the whole process.

Last, but certainly not least, I want to thank my parents, Jim and Virginia Ballenger. Your love and support have been a steadfast beacon throughout this sailor's life.

I. INTRODUCTION

A. BACKGROUND

The Defense Commissary Agency (DeCA) was officially activated on October 1, 1991 in ceremonies at its headquarters at Fort Lee, Virginia. The new agency consolidated all the services' commissaries under one command at the recommendation of the congressionally-directed Jones Commission. [Ref. 1:p. 82] Consolidating the commissaries under one command, an idea which had been around for at least a decade, would provide DoD with the savings of having one command function where there had been four. Additionally, purchasing for one grocery chain instead of four would also provide cost savings. But there was also hope that the consolidation would help subdue the privatization argument against the commissary.

As the grocery industry developed into today's stores, the commissary's development paralleled it. Every decade after World War II has seen an attack on the commissary system, but the commissaries have survived. The 1980's attacks beget a consolidated commissary system. The 1990's attacks are far different; the whole equation has changed due to the end of the Cold War. All of DoD is coming under fire for a "peace dividend," which the American people deserve. DoD is rethinking its whole purpose; trying to find its "core competencies." This entails defining what functions the military should do and/or does well (better than anyone else); DoD will continue to provide those functions internally. Functions which do not fall within the core competencies, either will be dropped altogether or will be contracted out to private

companies. Profit making firms are expected to provide these functions efficiently and at a lower cost.

Does DoD exist to run grocery stores? This answer is of course no. Is the commissary benefit important for retaining a quality force, and to military retirees? That question is of course yes. DoD, therefore want to provide this service to its members and retirees. The very real question is “Does DeCA, with its approximately \$1 billion appropriation per year, provide this benefit more effectively than the private sector?” This was the initial question pursued at the outset of this thesis.

The 1995 Defense Commissary Agency’s (DeCA) financial statements were obtained, and it was evident that this question could not be answered as the financial statements existed. The statements were in a format which could not be compared to private sector financial statements. This thesis will attempt to “rearrange” DeCA’s financial statements to a comparable grocery industry format, and discuss the implications of this rearrangement.

B. THESIS SCOPE AND APPROACH

The objectives of this thesis are to:

- examine DeCA’s current financial statements and format
- propose a new format which will allow comparison with private grocers
- conduct a comparison, and determine any benefits from that comparison.

Research into current federal financial reporting will be conducted. This includes

exploring the Chief Financial Officer's Act of 1990, standards provided by the Federal Accounting Standards Advisory Board (FASAB), and guidelines given by both the Office of Management and Budget (OMB) and Department of Defense (DoD). Further research will be done on the grocery industry, and its accounting and reporting procedures.

Chapter II will provide a history of commissaries, and their evolution from a sutler system to today's military grocery store. DeCA's short history will be included as well. DeCA's current organization and its functions will be discussed in the chapter.

Chapter III will examine the current financial reporting at DeCA. There are three principal statements included in their financial reports. The format of all three statements will be described in detail to provide the background needed to understand them fully.

Chapter IV will analyze the current format, and discuss DeCA's unique position within DoD. This position and the current format creates a dilemma in DeCA's financial reporting. In this chapter, the reader will be introduced to enterprise funds, and their importance will be discussed.

Chapter V proposes new formats for two of DeCA's principal statements. These statements will approximate the grocery industry's statements. The two proposed formats and their changes from the original statements will be discussed.

Chapter VI will compare DeCA, two grocery companies, and the grocery industry. The grocery industry's data will be provided by Robert Morris Associates. Comparison will draw on six performance ratios. The comparative data will be analyzed and discussed.

Chapter VII contains the recommendations reached from this study. Areas for further research will be provided.

II. HISTORY AND CURRENT ORGANIZATION

A. HISTORY

1. Beginnings to World War II

The Defense Commissary Agency has been in existence for only a short time, but commissaries date back to the American Revolution. When Congress organized the Continental Army, it also included a “Commissary General of Stores and Provisions” to provide the Army’s subsistence. This system of contracting with civilian suppliers to deliver and distribute provisions to the troops was a failure, and was largely responsible for the disastrous winter encampments at Valley Forge and Morristown. [Ref. 1:p.80]

By 1791, military commanders and government officials began issuing licenses to sutlers (civilian merchants), whom they believed to be trustworthy, to sell nonration items to troops. These sutlers quickly began developed a reputation of selling the Army inferior goods at outrageous prices. In 1826, the Army began selling goods from commissary storehouses directly to officers posted at specific locations, for cost plus transportation; by 1835, the Army allowed the officers to purchase goods for their families. [Ref. 1:p. 80]

On July 28, 1866, Congress passed legislation that allowed officers and enlisted men to purchase goods at cost from commissary storehouses. This same legislation also abolished sutlers. It is important to note that the act did not restrict the geographical

locations of the stores, i.e., that the legislation did not limit this practice to remote posts. On July 1, 1867, the first sales commissary began operating at Ft. Delaware, DE. All Army subsistence warehouses would now double as sales stores. [Ref. 2:p. 7]

In 1879, Congress established a ten percent surcharge on all commissary sales items, except tobacco, to help pay for spoilage and transport costs. The surcharge stayed in effect for five years. In the same legislation, Congress authorized retired officers to shop at commissaries after first receiving permission from the local commander. Later in the year, civilian Army employees at remote posts were authorized to purchase goods at cost from sales commissaries. The civilians had to pay the prevailing ten percent surcharge, and had to pay in cash. The earliest mention of family members being allowed to shop in commissaries in army regulations occurs in 1881. This regulation stated that an Army officer could designate a family member to make subsistence purchases during his absence. By 1898, an overseas grocery list was established for sales commissaries; on October 1, 1900 the first true permanent overseas commissary was established at Manila in the Philippines Islands. [Ref. 2:p. 9]

The cruise of the “Great White Fleet” around the world in 1908 proved the inadequacy of both the Navy’s canteen system and “Bum boats” (akin to the Army’s sutlers, and with the same reputation). This led directly to the establishment of Navy commissaries. The Naval Appropriations Act of 1909 provided for Navy Ships’ Stores and Commissaries and Marine Corps Commissaries. That same year, the first Marine

Corp commissary was established; the first Navy commissary was opened the following year at the Washington Navy Yard. [Ref 2:pp. 9, 10]

The Appropriations Act of 1916 referred to Army Regulation 1241 permitting the sale of commissary supplies to active duty or retired enlisted personnel. Prior to this legislation, only retired officers were allowed commissary privileges. Ten years later, the Army allowed officers, warrant officers, and enlisted members of the Officers Reserve Corps, Enlisted Reserve Corps, National Guard, and National Guard Reserve to shop at commissaries when attending service schools, when on maneuvers with the regular Army, and when in camp at a station where such sales were being made. They were allowed to purchase for themselves and their immediate family. Lighthouse keepers and crews of lightships were also authorized to shop in military commissaries. In 1937, the Navy extended commissary privileges to officers and enlisted men of the Coast Guard, and to widows of Navy, Marine Corps, and Coast Guard officers and enlisted men. The following year, the new concept of “self-service” operations was introduced in commissaries. [Ref 1:pp. 80, 81]

2. World War II to Present

The growth of the services in World War II also saw unprecedented growth in the commissaries. The commissaries and exchanges often shared facilities during the war, consequently this overlap led to confusion about their different functions. Military and civilians alike began referring to them as one and the same.

As the commissaries and exchanges grew in size, Congressional scrutiny was sure to follow. In 1949 the House of Representatives set up the House Armed Services Committee's Special Subcommittee on Resale Activities of the Armed Forces (also referred to as the Special Subcommittee on Exchanges and Commissaries), chaired by Rep. Philip J. Philbin. (The committee would be popularly referred to as the Philbin Committee.) The subcommittee's role was to investigate Post Exchanges, Quartermaster Sales Stores, Ship's Service Stores, Commissaries, and other pertinent or related activities within the Armed Forces. [Ref. 2:p. 13]

The Committee's report concluded that commissaries and exchanges were actively and unfairly competing with established private business; that many commissaries were being operated in close proximity to adequate commercial facilities which were conveniently available at reasonable prices; that it would be desirable to have consistent regulations governing exchange and commissary activities since wide variations existed in the current regulations; and there was inequity between the services concerning eligibility to shop at exchanges and commissaries. [Ref. 2:p. 14]

Singling out exchanges for most of its criticism, the subcommittee recommended that the price differential between exchanges and retail businesses be narrowed by including in the cost of exchange operations all utilities, maintenance, and equipment. It also recommended that all services refer to their service stores and exchanges as "exchanges," that regulations be standardized, and that the exchanges generate profits for

recreation and welfare funds. [Ref. 2:p. 14]

The subcommittee did not subscribe to the philosophy that exchanges should primarily generate profits for the recreation and welfare fund; rather, the report made it very clear that the sole justification for maintaining and operating exchanges and commissaries was the convenience and morale of military members and their families. [Ref. 2:p. 15]

As a result of the Philbin Committee, the Armed Services Commissary Store Regulation (ASCSR) was instituted. The ASCSR standardized the stock list, terminology, and other criteria for all Armed Services' commissaries. The regulation also specified qualifications for commissary patrons. Each service continued to maintain their own commissary procedures, when not in conflict with this regulation. This regulation also specified that commissaries would not be authorized in areas where adequate commercial facilities were conveniently available and sold commissary merchandise at reasonable prices. The terms "conveniently located" and "reasonable prices" were, and continue to be, open to interpretation. The ASCSR went into effect on October 1, 1949. [Ref. 2:p. 15]

In accordance with the FY 1952 Department of Defense Appropriations Act, Congress began requiring commissaries to become self-sustaining in purchasing and maintaining equipment and supplies. To this end, Congress established a surcharge on goods sold at commissaries, beginning on January 1, 1952. Commissary customers had

to pay the cost of merchandise (purchase price and transportation). The surcharge paid for operating equipment, supplies, utilities, merchandise losses and spoilage. The surcharge was 3.5 percent overseas, and three percent in the Continental United States (CONUS). The remaining costs not paid by customers or the surcharge were borne by the military departments. These costs included pay and allowances for employees; facilities, including store rental; procurement, inspection, receiving, warehousing, disbursing, accounting, and other administrative functions. [Ref. 2:pp. 15, 16]

The surcharge rate increased in the ensuing years, with rates varying by service. In 1976, the Army and Air Force increased rates to four percent, while the Navy and Marine Corps used a “variable” surcharge rate, which averaged six percent. In 1983, the Secretary of Defense directed the services to set the surcharge at five percent. Since DeCA was activated, the surcharge rate has remained at five percent. That rate remains in effect today. [Ref. 1:p. 82]

In 1963, excess surcharge funds were first authorized for construction and remodeling costs. These costs now comprise 29 percent of surcharge collections, the second largest share. The largest share goes towards operating expenses, followed by construction, automated data processing (ADP) systems, utilities, and equipment. [Ref 2:p.19]

The foundations of today’s commissaries had been laid by 1952, and no major changes occurred until the commissaries were consolidated. Issues such as competition,

privatization, and true costs were reviewed by different commissions during the next 40 years since 1956, but action was only taken after the Jones Commission, which recommended consolidating the services' commissary systems. [Ref 1:p. 82]

This recommendation was itself not new. It is first seen in a DoD Comptroller General study to improve commissary operations. That study suggested establishing a single DoD commissary system. A 1980 General Accounting Office (GAO) report also recommended consolidating the four separate commissary systems into a single agency. But until the Jones commission in 1989, the recommendations went unheeded. [Ref. 1:p. 82]

On May 15, 1990, DoD announced the Defense Commissary Agency would be formed to consolidate the services' commissary systems. A DeCA transition team was formed, and began meeting in July 1990. One of their first actions was to select Fort Lee, VA as the site for the new headquarters. On November 9, 1990, DeCA was established by DoD Directive 5105.55. On October 1, 1991, DeCA was officially activated, and Army Major General John Dreska became the first director. [Ref. 1:p. 83]

DeCA's first major problem, stemming from the transition, was its bill paying system. This problem ballooned until there were \$403 million of unpaid bills during the winter of 1991-92. Correcting this problem became DeCA's priority short-term goal. By November 1992, the backlog of unpaid bills was down to \$33 million. DeCA's director declared the problem solved and under control. [Ref. 1:p. 83]

On November 30, 1992, Army Major General Richard E. Beale, Jr. became the new DeCA director. Under his watch, DeCA's headquarters has been reorganized, the number of military personnel at DeCA has been dramatically reduced, and, in December 1995, DeCA received the Hammer Award recognizing the agency for demonstrating significant efforts in reinventing government processes. [Ref 1:p. 83]

B. CURRENT ORGANIZATION

As stated earlier, DeCA is headquartered at Fort Lee, VA, from which it oversees a worldwide system of seven regions. DeCA employs approximately 18,000 people to manage and operate its system of more than 300 commissaries whose annual sales total \$5 billion. [Ref. 1:p. 4]

Figure 2.1 shows DeCA's current organizational chart. The Command Section directs all activities, and includes the director, a two-star general office, a chief executive officer, chief of staff, aide-de-camp, senior enlisted advisor, and administrative support (Office of the Inspector General, Office of the General Counsel, etc.). The agency falls under the Undersecretary of Defense (Personnel and Readiness). [Ref. 1:p. 5]

There are six functional directorates. The Directorate of Facilities develops and implements facilities policies and programs. The Resource Management Directorate develops policy, procedures, and plans for commissary financial and accounting matters, administers funding authority, analyzes financial reports, and ensures the fiscal accounts'

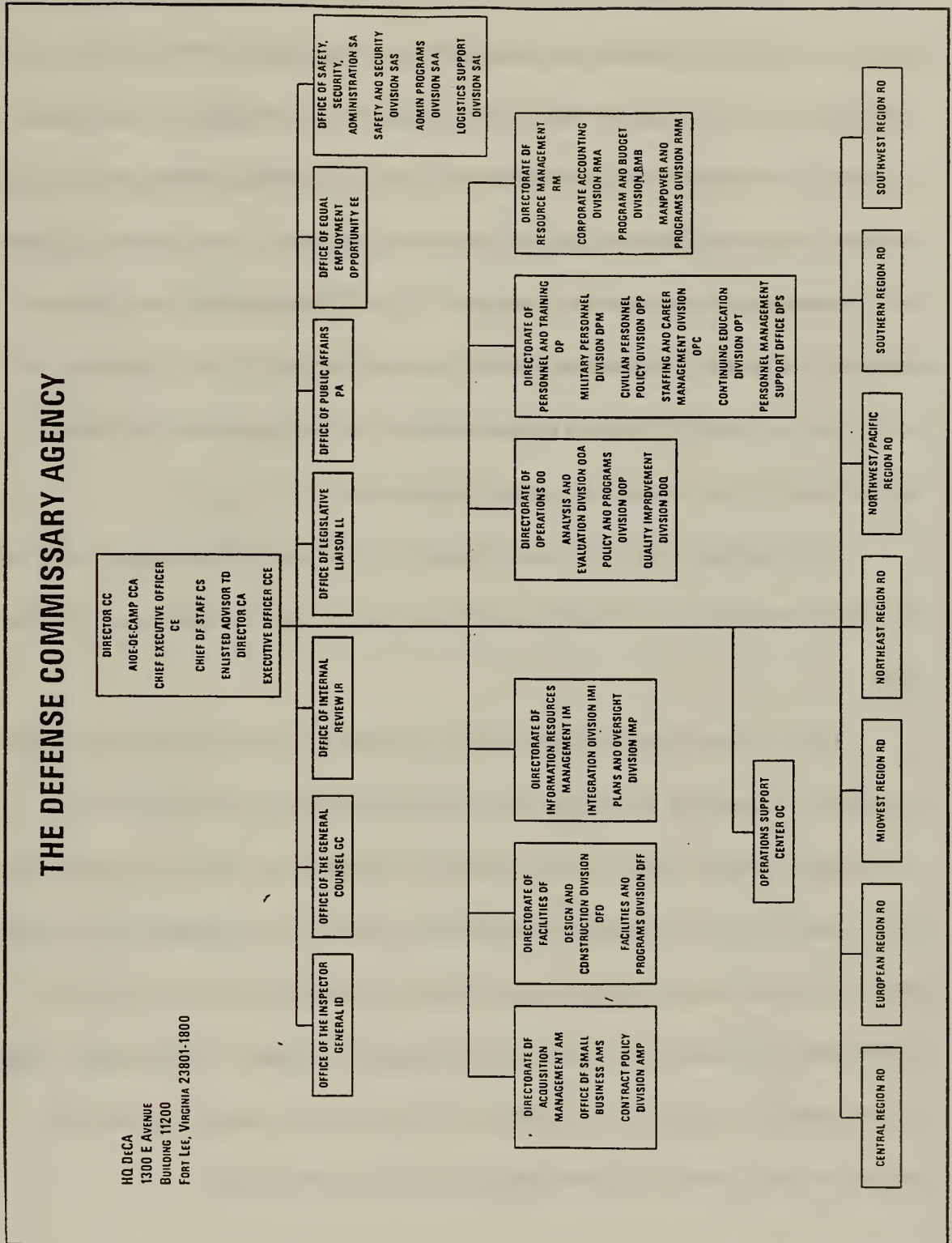


Figure 2.1. Defense Commissary Agency Organization Chart

integrity. The Directorate of Operations develops, establishes, directs and implements operating policies, procedures, and programs for the commissaries. The Personnel and Training Directorate plans and directs civilian and military training and development programs for the agency. The Directorate of Information Resource Management provides program management, planning, and supports of automation, telecommunications, and other automation related functions that speed the flow of information among decision makers. The Acquisition Management Directorate manages DeCA's worldwide acquisition program for procuring commissary resale items, operational equipment, supplies and services, and agency support requirements. [Ref 1:pp. 5, 6]

The Operations Support Center responds to the operational and support needs of the agency's regions, zone managers, commissaries, and other associated facilities world wide.

There are seven regions within DeCA; six in the continental United States and one in Europe. Two regions, the Northwest/Pacific and Southern, are responsible for commissaries located both within and outside the United States. The region headquarters provide technical advice, assistance, training and direction to commissaries located under their jurisdiction. Region directors report directly to DeCA's CEO. The regions are divided into zones and districts for localized management support. Zone managers report to their respective regions. Stores work directly through zone managers within their regions, or directly with the Operations Support Center. [Ref 1:p. 6]

C. SUMMARY

This chapter has provided a short history of commissaries and the evolution of the current organization known as the Defense Commissary Agency. Commissaries have evolved from providing food stores to soldiers and sailors, to today's military grocery stores. They have also been consolidated from service control to DoD control.

Chapter III will study DeCA's 1995 financial statements. These include Statements of Financial Position (Balance Sheets), Statements of Operations and Changes in Net Position (Income Statements), and Statements of Cash Flows.

III. CURRENT FINANCIAL REPORTING AT DeCA

A. INTRODUCTION

1. Federal Government Guidelines

The Chief Financial Officer Act of 1990 culminated a decade's worth of labor by both Congress and the private sector to improve the federal government's performance in financial management. Its passage forever changed federal financial reporting. One of the Act's challenges to the federal government was the transition toward financial statements that would classify costs, provide corresponding measures of performance and be useful predictors for future liabilities and return on investments. The federal government was now legally tasked to produce auditable financial statements. [Ref. 3:p. 1]

In anticipation of the CFO Act's passage, the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States ("the Principals") established the Federal Accounting Standards Advisory Board (FASAB) in October 1990. FASAB's role was, and still is, to deliberate upon and make recommendations to the Principals on accounting principles and standards for the Federal Government and its agencies. When recommendations are agreed on by the Principals, the Comptroller General and the Director of OMB publish the associated accounting principles, concepts and standards. [Ref. 4:p. 1]

The CFO Act of 1990 mandated the requirements for the federal government's financial accounting and reporting, but the specifics for complying with this legislation has come from the SFFAS's, SFFAC's (Concepts) and OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements." These sources have provided the framework and structure for all entities within the federal government which prepare financial statements.

Annual financial statements include an overview of the reporting entity, principal statements and related notes, combining statements (when feasible and appropriate), and supplemental financial and management information. The principal statements include a Statement of Financial Position, Statement of Operations (and Changes in Net Position), and Statement of Cash Flows. [Ref 5:pp. 5, 6]

2. DeCA's Funding Accounts

DeCA submits principal statements for each of its funding sources--Defense Business Operations Fund (DBOF) and Surcharge Collections. Under DBOF, DeCA maintains two "business areas"--Resale Stocks and Commissary Operations, and consolidates them into one statement. [Ref. 6:p. 5]

The Commissary Resale Stocks Account finances inventory for resale to authorized patrons. Authorized commissary patrons are unlike the typical DoD DBOF customer. DBOF customers are normally government entities financed by an appropriation. The customer at DeCA is a cash paying individual placing the same

demand on service whether it is at the beginning, middle, or end of the fiscal year.

Products offered by commissaries include groceries, meat, poultry, fruits, vegetables, dairy products, and household products. Commissary items are sold at cost; i.e., without any markup or profit margin. Revenue from sales is reinvested in inventory for additional sales, whereby the unit cost goal is 1.00. Therefore, this business area is self-sufficient and does not require appropriated fund support. [Ref. 6:p. 5]

The Commissary Operations Account finances operating costs for resale stores, agency and region headquarters, and support services. Specific costs include civilian labor, labor contracts, travel, transportation of commissary goods overseas, indirect and other base support, and military personnel. The primary revenue source for this business area is an appropriation. Commissary Operations receives limited additional funding for processing manufacturers' coupons and reimbursements for other support. [Ref 6:p. 5,6]

The Surcharge Collections Account is a trust fund outside the DBOF, primarily funded by a five percent surcharge applied to patron sales at the check-out counter. This fund was established to make authorized patrons share in the overall costs of commissary operations. The Surcharge Collections Account is responsible for financing commissary supplies and equipment, ADP equipment and support, and commissary construction program. This account Surcharge Collections is the primary fund source for capital assets. [Ref 6:p. 6]

B. PRINCIPAL STATEMENTS

1. Statements of Financial Position

Figures 3.1 and 3.2 show the DBOF Consolidated and Surcharge Statements of Financial Position respectively. The statements have the same format as a private sector balance sheet with one exception: a government entity's formula is assets = liabilities + net position. Net position is defined as excess of assets over liabilities.

a. Assets

Assets are first divided into two sections; entity assets and non-entity assets. Entity assets are those assets which the reporting activity (DeCA) has authority to use in its operations. Non-entity assets are those assets that are held by an entity, but are not available to the entity. [Ref. 7:p. 6] An example of non-entity assets are income tax revenues that the Internal Revenue Service collects for the U.S. government, but has no authority to spend.

These two divisions are sub-divided into "Transactions with Federal and Non-Federal Entities." The differentiation between the two reflects with whom the transaction occurs. Intra governmental assets arise from transactions among federal entities. Intra governmental assets are claims of a federal entity against other federal entities. Governmental assets arise from transactions of the federal government or an entity of the federal government with non-federal entities. Governmental assets are claims of the federal government against non-federal entities. Non-federal entities

| ASSETS | | |
|-----------------------------------------------------------------------------|----------------------|--------------------|
| 1. Entity Assets: | | |
| a. Transactions with Federal Entities: | | |
| (1) Fund Balance with Treasury (Note 2) | <u>(\$533,193)</u> | |
| (a) Funds Collected | \$5,526,404 | |
| (b) Funds Disbursed | <u>(\$6,488,929)</u> | |
| (c) Funds with Treasury | \$429,332 | |
| (2) Investments, Net (Note 4) | | |
| (3) Accounts Receivable, Net (Note 5) | \$42,511 | |
| (4) Interest Receivable | | |
| (5) Advances and Prepayments | | |
| (6) Other Intragovernmental (Note 6) | | |
| b. Transactions with Non-Federal Entities: | | |
| (1) Investments, Net (Note 4) | | |
| (2) Accounts Receivable, Net (Note 5) | \$85,514 | |
| (3) Credit Program Receivables/Related Foreclosed Property, Net (Note 5) | | |
| (4) Interest Receivable, Net | \$974 | |
| (5) Advances and Prepayments | | |
| (6) Other Non-Governmental (Note 6) | | |
| c. Cash and Other Monetary Assets (Note 3) | | |
| d. Inventories Held for Sale, Net (Note 8) | | |
| e. Work in Progress (Note 9) | \$451,590 | |
| f. Operating Materials/Supplies, Net (Note 10) | | |
| g. Stockpile Materials, Net (Note 11) | | |
| h. Seized Property, Net (Note 12) | | |
| i. Forfeited Property, Net (Note 13) | | |
| j. Goods held under Price Support and Stabilization Programs, Net (Note 14) | \$646 | |
| k. Property and Equipment, Net (Note 15) | <u>\$151,528</u> | |
| l. Other Entity Asset | | |
| m. Total Entity Assets | <u>\$199,570</u> | |
| 2. Non-Entity Assets: | | |
| a. Transactions with Federal Entities: | | |
| (1) Fund Balance with Treasury | | |
| (2) Accounts Receivable, Net (Note 5) | | |
| (3) Interest Receivable, Net | | |
| (4) Other (Note 6) | | |
| b. Transactions with Non-Federal Entities: | | |
| (1) Accounts Receivable, Net (Note 5) | | |
| (2) Interest Receivable, Net | | |
| (3) Other (Note 6) | | |
| c. Cash and other Monetary Assets (Note 3) | | |
| d. Other Non-Entity Assets | | |
| e. Total Non-Entity Assets | <u>\$0</u> | |
| 3. TOTAL ASSETS | <u>\$199,570</u> | |
| LIABILITIES | | |
| 4. Liabilities Covered by Budgetary Resources: | | |
| a. Transactions with Federal Entities: | | |
| (1) Accounts Payable | | \$473,006 |
| (2) Interest Payable | | |
| (3) Debt (Note 16) | | |
| (4) Other Intragovernmental Liabilities (Note 17) | | |
| b. Transactions with Non-Federal Entities: | | |
| (1) Accounts Payable | | \$495,870 |
| (2) Accrued Payroll and Benefits | | \$0 |
| (a) Salaries and Wages | | \$11,615 |
| (b) Annual Accrued Leave | | |
| (c) Severance Pay and Separation Allowance | | |
| (3) Interest Payable | | |
| (4) Liabilities for Loan Guarantees (Note 7) | | |
| (5) Lease Liabilities (Note 18) | | |
| (6) Pensions and other Actuarial Liabilities (Note 19) | | |
| (7) Other Governmental Liabilities (Note 17) | | |
| c. Total Liabilities Covered by Budgetary Resources | <u>\$980,491</u> | |
| 5. Liabilities not Covered by Budgetary Resources: | | |
| a. Transactions with Federal Entities: | | |
| (1) Accounts Payable | | |
| (2) Debt (Note 16) | | |
| (3) Other Intragovernmental Liabilities (Note 17) | | |
| b. Transactions with Non-Federal Entities | | |
| (1) Accounts Payable | | |
| (2) Debt (Note 16) | | |
| (3) Lease Liabilities (Note 18) | | |
| (4) Pensions and Other Actuarial Liabilities | | |
| (5) Other Non-Federal (Governmental) Liabilities (Note 17) | | |
| c. Total Liabilities not covered by Budgetary Resources | <u>\$27,172</u> | |
| 6. Total Liabilities | <u>\$27,172</u> | |
| 7. Balances | <u>\$1,007,663</u> | |
| NET POSITION | | |
| a. Unexpended Appropriations | | \$3,323,931 |
| b. Invested Capital | | (\$4,104,852) |
| c. Cumulative Results of Operations | | |
| d. Other | | |
| e. Future Funding Requirements | | <u>(\$27,172)</u> |
| f. Total Net Position | | <u>(\$808,093)</u> |
| 8. TOTAL LIABILITIES AND NET POSITION | | <u>\$199,570</u> |

Figure 3.1. DBOF Consolidated Statement of Financial Position

| ASSETS | | LIABILITIES | |
|----------------------------------------------------------------------------|-------------|------------------------------------------------------------|-----------|
| 1. Entity Assets: | | 4. LIABILITIES | |
| a. Transactions with Federal Entities: | | a. Liabilities Covered by Budgetary Resources: | |
| (1) Fund Balance with Treasury (Note 2) | | a. Transactions with Federal Entities: | |
| (a) Funds Collected | \$411,251 | (1) Accounts Payable | \$42,141 |
| (b) Funds Disbursed | \$285,512 | (2) Interest Payable | |
| (c) Funds with Treasury | (\$281,010) | (3) Debt (Note 16) | |
| (2) Investments, Net (Note 4) | \$406,749 | (4) Other Intragovernmental Liabilities (Note 17) | |
| (3) Accounts Receivable, Net (Note 5) | | b. Transactions with Non-Federal Entities: | |
| (4) Interest Receivable | \$1,519 | (1) Accounts Payable | \$11,842 |
| (5) Advances and Prepayments | | (a) Salaries and Benefits | |
| (6) Other Intragovernmental (Note 6) | | (b) Annual Accrued Leave | |
| b. Transactions with Non-Federal Entities: | | (c) Severance Pay and Separation Allowance | |
| (1) Investments, Net (Note 4) | | (3) Interest Payable | |
| (2) Accounts Receivable, Net (Note 5) | \$11,675 | (4) Liabilities for Loan Guarantees (Note 7) | |
| (3) Credit Program Receivables/Related Foreclosed Property, Net (Note 5) | | (5) Lease Liabilities (Note 18) | |
| (4) Interest Receivable, Net | | (6) Pensions and other Actuarial Liabilities (Note 19) | |
| (5) Advances and Prepayments | | (7) Other Governmental Liabilities (Note 17) | |
| (6) Other Non-Governmental (Note 6) | | c. Total Liabilities Covered by Budgetary Resources | \$53,983 |
| c. Cash and Other Monetary Assets (Note 3) | | | |
| d. Inventories Held for Sale, Net (Note 8) | | 5. Liabilities not Covered by Budgetary Resources: | |
| e. Work in Progress (Note 9) | | a. Transactions with Federal Entities: | |
| f. Operating Materials/Supplies, Net (Note 10) | | (1) Accounts Payable | |
| g. Stockpile Materials, Net (Note 11) | | (2) Debt (Note 16) | |
| h. Seized Property, Net (Note 12) | | (3) Other Intragovernmental Liabilities (Note 17) | |
| i. Forfeited Property, Net (Note 13) | | b. Transactions with Non-Federal Entities | |
| j. Goods held under Price Support and Stabilizaion Programs, Net (Note 14) | \$235,937 | (1) Accounts Payable | |
| k. Property and Equipment, Net (Note 15) | | (2) Debt (Note 16) | |
| l. Other Entity Asset | | (3) Lease Liabilities (Note 18) | |
| m. Total Entity Assets | \$660,382 | (4) Pensions and Other Actuarial Liabilities | |
| | | (5) Other Non-Federal (Governmental) Liabilities (Note 17) | |
| 2. Non-Entity Assets: | | c. Total Liabilities not covered by Budgetary Resources | \$0 |
| a. Transactions with Federal Entities: | | | |
| (1) Fund Balance with Treasury | | 6. Total Liabilities | \$53,983 |
| (2) Accounts Receivable, Net (Note 5) | | | |
| (3) Interest Receivable, Net | | 7. NET POSITION | |
| (4) Other (Note 6) | | a. Balances | |
| b. Transactions with Non-Federal Entities: | | b. Invested Capital | \$260,594 |
| (1) Accounts Receivable, Net (Note 5) | | c. Cumulative Results of Operations | \$345,805 |
| (2) Interest Receivable, Net | | d. Other | |
| (3) Other (Note 6) | | e. Future Funding Requirements | |
| c. Cash and other Monetary Assets (Note 3) | | f. Total Net Position | \$606,399 |
| d. Other Non-Entity Assets | \$0 | | |
| e. Total Non-Entity Assets | | 8. TOTAL LIABILITIES AND NET POSITION | \$660,382 |
| 3. TOTAL ASSETS | \$660,382 | | |

Figure 3.2. Surcharge Statement of Financial Position

encompass domestic and foreign persons and organizations outside the U.S. government. (The term “public” is also used within the SFFAS’s to represent non-federal entities.) SFFAS Number 1, “*Accounting for Selected Assets and Liabilities*” states that entity assets should be segregated from non-entity assets, and intragovernmental assets should be reported separately from governmental assets. [Ref. 7:p. 5]

“Fund Balance with Treasury” (1a.1) represents the entity’s aggregate accounts with the Treasury for which the entity is authorized to make expenditures and pay liabilities. Therefore, it is an intragovernmental asset. Note 2 is used specifically for “Fund Balance with Treasury.” It is used to explain any material discrepancies between the entity and Treasury fund accounts, and to disclose any obligated balances not yet disbursed, those unobligated balances, and any restrictions on the unobligated balances. [Ref. 5:p. 11]

“Accounts receivables” (1a.3, 1b.2) are “net” because an allowance for estimated uncollectible amounts is made. The amount shown is the net realizable value. Additional information regarding all categories of accounts receivables are disclosed in Note 5. [Ref. 5:p. 12]

“Advances” (1a.5, 1b.5) are cash outlays made to employees, contractors, grantees, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the costs of goods and services the entity receives. “Prepayments” are payments made to cover certain periodic expenses before they are incurred. [Ref.

5:p.13]

“Inventory” (1d) is tangible personal property that is held for sale (including raw materials and work in process), in the process of production for sale, or to be consumed in either the production of goods for sale or in the provision of services for a fee. As with accounts receivable, inventories are shown at their net realizable value, taking into account losses and obsolescence. Note 8 discloses this information. [Ref. 5:p. 14]

“Property, plant and equipment, net” (1k) includes real and personal property (i.e., land, structures and facilities, self-developed software, etc.) that has been capitalized, net of any accumulated depreciation. The components of property, plant and equipment, as well as information regarding depreciation practices, if any, are disclosed in Note 15. [Ref. 5:p. 15]

“Other entity assets” (1l) are assets that are not classified as intragovernmental or governmental, and are not included on the previous lines. If the components of other entity assets are material, then disclosure should be made in a footnote. [Ref. 5:p. 15]

b. Liabilities

Liabilities are to be recognized when they are incurred regardless of whether they are covered by available budgetary resources. Budgetary resources include: (1) new budget authority; (2) offsetting collections credited to an appropriation or fund

account; (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations; and (4) unobligated balances of such resources at the beginning of the year or transferred in during the year. [Ref. 5:p. 17]

“Accounts payable” (4a.1, 4b.1) are the amounts the entity owes by the entity for goods and services received from, progress in contract performance made by, and rents due to other federal and non-federal entities. Accrued salaries and wages (4b.2.a) are those earned by employees but not yet paid by the entity. [Ref 5:p. 19]

“Other governmental liabilities” (4b.7, 5b.5) represent other liabilities that are not recognized in specific categories. Examples of liabilities that could be reported on this line include accrued employee annual leave, advances and prepayments received from other non-federal entities for goods to be delivered or services to be performed, or deposit fund amounts held in escrow. Note 17 should be used to separately report the current portion of other governmental liabilities. [Ref 5:pp. 20, 21]

c. Net Position

The components of net position are unexpended appropriations, invested capital, cumulative results of operations, other, and future funding requirements.

“Unexpended appropriations” (7a) include the portion of appropriations associated with undelivered orders and unobligated balances. Unobligated balances may include both available and unavailable amounts. [Ref. 5:p. 21]

“ Invested capital” (7b) includes the acquisition cost of capitalized fixed

assets financed by appropriations; pre-credit reform loans financed by appropriations; and the additional investment in a revolving fund to commence operations or begin a new activity. It also includes deductions for: the reduction in investment due to depreciation, amortization, bad debts related to the pre-credit reform loans, sales or exchanges, donations, other disposals; the return of initial investment to an investor; or transfers to another entity or revolving fund. Investment capital is the net investment of the government in the reporting entity. [Ref. 5:p. 21]

“Cumulative results of operations” (7c) is the net difference between expenses, losses, and financing sources since the inception of the activity. “Other” (7d) represents other components of net position not specifically identified in the previous components. “Future Funding Requirements”(7e) reflect liabilities reported which are not covered by available budgetary resources. The total of this line should agree with the total “Liabilities not Covered by Budgetary Resources”, line 5c. [Ref. 5:p. 21]

2. Statements of Operations (and Changes in Net Position)

In format, this statement has the fewest similarities with private sector income statements than other federal financial statements. The Statement of Operations (and Changes in Net Position) lumps all expenses, less extraordinary items, into one group. Since federal entities do not have to pay income taxes, they are less restricted in this statement. The statements are shown in figures 3.3 and 3.4.

REVENUES AND FINANCING SOURCES

| | |
|------------------------------------------------------------------------------|---------------------------|
| 1. Appropriated Capital Used | |
| 2. Revenues from Sales of Goods and Services: | |
| a. To the Public | \$5,329,558 |
| b. Intragovernmental | \$150,038 |
| 3. Interest and Penalties, Non-Federal | |
| 4. Interest, Federal | |
| 5. Taxes | |
| 6. Other Revenues and Financing Sources: | |
| a. DLA Transfer of Cash (Note 22) | \$251,600 |
| 7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies | |
| 8. Total Revenues and Financing Sources | <u>\$5,731,196</u> |

EXPENSES

| | |
|--------------------------------------------------------------------------------------------------------------|---------------------------|
| 9. Program or Operation Expenses (Note 23) | |
| 10. Cost of Goods Sold: | |
| a. To the Public | \$4,777,209 |
| b. Intragovernmental | \$1,785,557 |
| 11. Depreciation and Amortization | \$208 |
| 12. Bad Debts and Write-Offs | \$1,158 |
| 13. Interest | |
| a. Federal Financing Bank/Treasury | |
| b. Federal Securities | |
| c. Other (Note 25) | (\$73) |
| 14. Other Expenses (Note 25) | <u>\$51,238</u> |
| 15. Total Expenses | <u>\$6,615,297</u> |
| 16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items | (\$884,101) |
| 17. Plus (Minus) Extraordinary Items | |
| 18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | <u>(\$884,101)</u> |
| 19. Net Position, Beginning Balance, as Previously Stated | (\$1,442,568) |
| 20. Adjustments (Note 27) | <u>\$169,989</u> |
| 21. Net Position, Beg. Balance, as Restated | <u>(\$1,272,579)</u> |
| 22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | (\$884,101) |
| 23. Plus (Minus) Non-Operating Changes (Note 28) | <u>\$1,348,587</u> |
| 24. NET POSITION, ENDING BALANCE | <u>(\$808,093)</u> |

Figure 3.3. DBOF Consolidated Statement of Operations (and Changes in Net Position)

REVENUES AND FINANCING SOURCES

| | |
|------------------------------------------------------------------------------|------------------|
| 1. Appropriated Capital Used | |
| 2. Revenues from Sales of Goods and Services: | |
| a. To the Public | |
| b. Intragovernmental | |
| 3. Interest and Penalties, Non-Federal | |
| 4. Interest, Federal | |
| 5. Taxes | |
| 6. Other Revenues and Financing Sources: (Note 22) | \$271,755 |
| 7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies | |
| 8. Total Revenues and Financing Sources | <u>\$271,755</u> |

EXPENSES

| | |
|--------------------------------------------------------------------------------------------------------------|--------------------|
| 9. Program or Operating Expenses (Note 23) | \$171,629 |
| 10. Cost of Goods Sold: | |
| a. To the Public | |
| b. Intragovernmental | |
| 11. Depreciation and Amortization | \$7,098 |
| 12. Bad Debts and Write-Offs | |
| 13. Interest | |
| a. Federal Financing Bank/Treasury | |
| b. Federal Securities | |
| c. Other (Note 25) | |
| 14. Other Expenses (Note 25) | |
| 15. Total Expenses | <u>\$178,727</u> |
| 16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items | \$93,028 |
| 17. Plus (Minus) Extraordinary Items | |
| 18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | <u>\$93,028</u> |
| 19. Net Position, Beginning Balance, as Previously Stated | \$712,874 |
| 20. Adjustments (Note 27) | <u>(\$13,393)</u> |
| 21. Net Position, Beg. Balance, as Restated | \$699,481 |
| 22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | \$93,028 |
| 23. Plus (Minus) Non-Operating Changes (Note 28) | <u>(\$186,110)</u> |
| 24. NET POSITION, ENDING BALANCE | <u>\$606,399</u> |

Figure 3.4. Surcharge Statement of Operations (and Changes in Net Position)

a. Revenues and Financing Sources

“Appropriated Capital Used” (1) refers to the amount of appropriations used to finance expenses. This includes appropriations for (1) unfunded expenses from or periods that are funded with current period appropriations, (2) depreciation of capitalized (fixed) assets and consumption of inventory related to prior year purchases of fixed assets or inventory, if recorded, (3) accrued and actual losses on inventory write-downs, and (4) bad debt expense related to long term loans receivable and related interest on pre-1992 loans. [Ref. 5:p. 22]

“Revenues from the Sales of Goods and Services” (2) are self-explanatory, as are revenues from “Interest” (3, 4), Penalties (3), and Taxes (5). “Other Revenues and Financing Sources” (6) are from those sources not reported on the previous lines, and include such things as court fines, licenses, fee income, etc. Any significant revenues or financing from other sources are disclosed in Note 22. Any taxes and receipts that were reported on previous lines, but were transferred to the Treasury or other agencies, are subtracted out. These receipts are collected but, by public law, cannot be used by the reporting entity. [Ref. 5:p. 22]

b. Expenses

“Program or Operating Expenses” (9) are the expenses incurred in conducting normal activities. “Cost of Goods Sold” (10) are self-explanatory. “Depreciation and amortization” (11) includes any systematic allocation of the

acquisition cost of physical assets. [Ref. 5:p. 23]

“Bad Debts and Write-Offs” (12) include the estimated or actual amount of receivables determined to be uncollectible during the period, write-downs for inventory shortages or obsolescence, and write-offs of fixed assets. If material, these amounts should be reported on separate lines. [Ref. 5:p. 23]

“Interest Expense” (13) from different sources is self-explanatory. “Other Expenses” (14) are those expenses not reported on previous lines. These include losses on disposition of assets including collateral property, and, to the extent that they are recorded, discounts lost. The nature of any significant other expenses are disclosed in Note 25. [Ref. 5:p. 23]

“Extraordinary Items” (17) are revenues or expenses that are unusual, unrelated to the entity’s ordinary activities, and occur infrequently. If the amounts were reported on other revenue and expense lines, they are not included here. The nature of each extraordinary item is disclosed in Note 26. [Ref. 5:p. 23]

“Net position, Beginning Balance, as Previously Stated” (19) refers to the net position balance as of the beginning of the current fiscal year being reported before prior period adjustments. This amount should agree with the ending net position balance reported on the statement of financial position for the prior fiscal year. [Ref. 5:p. 24]

In those instances where “Adjustments” (20) are material and represent an accounting change or correct an error in previously issued statements, the adjustments

should, in single period statements, be reflected as adjustments of the opening balance of net position. When comparative statements are presented, the disclosure should include the effects for each of the periods included in the statements. [Ref. 5:p. 23]

“Non-Operating Changes” (23) consist of increases and/or decreases in the components of net position that are not reported on the operating statement. The net position, ending balance should agree to the ending net position balance reported on the Statement of Financial Position (line 7f). [Ref. 5:p. 24]

3. Statement of Cash Flows - Indirect Method

If the statement of operations is the least similar in format, the statement of cash flows is the most similar. The DBOF statement is shown in figure 3.5. OMB issued a waiver to eliminate the Statement of Cash Flows for all funds (other than DBOF) in March 1995, therefore, DeCA was not required to issue this statement for its surcharge collections account. [Ref. 8:p. 2]

The “Excess (Shortage) of Revenues and Financing Sources Over Total Expenses” (1) is the amount reported on line 18 of the Statement of Operations (and Changes in Net Position). “Appropriated Capital Used” (2) is the amount reported on line one from the Statement of Operations (and Changes in Net Position), and should be reported as a negative adjustment to the net cash flow from operations. [Ref. 5:p. 27]

A “Decrease in Accounts Receivable” (3) and “Other Assets” (4) adds to the cash balance, and an increase reduces it. Conversely, an “Increase in Accounts Payable” (5)

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|----------------------------------------------------------------------------|-------------|
| 1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | (\$884,101) |
| Adjustments affecting Cash Flow | |
| 2. Appropriated Capital Used | |
| 3. Decrease (Increase) in Accounts Receivable | \$54,313 |
| 4. Decrease (Increase) in Other Assets | \$148,620 |
| 5. Increase (Decrease) in Accounts Payable | (\$10,366) |
| 6. Increase (Decrease) in Other Liabilities | (\$16,093) |
| 7. Depreciation and Amortization | \$208 |
| 8. Other Unfunded Expenses | |
| 9. Other Adjustments | (\$3,570) |
| 10. Total Adjustments | \$173,112 |
| 11. Net Cash Provided (Used) by Operating Activities | (\$710,989) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|------------------------------------------------------|------|
| 12. Sale of Property, Plant, and Equipment | \$64 |
| 13. Purchase of Property, Plant, and Equipment | |
| 14. Sale of Securities | |
| 15. Purchase of Securities | |
| 16. Collection of Loans Receivable | |
| 17. Creation of Loans Receivable | |
| 18. Other Investing Cash Provided (Used) | |
| 19. Net Cash Provided (Used) by Investing Activities | \$64 |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|------------------------------------------------------------------------------------|---------------|
| 20. Appropriations (Current Warrants) | \$177,732 |
| 21. Add: | |
| a. Restorations | |
| b. Transfers of Cash From Others | |
| 22. Deduct: | |
| a. Withdrawals | |
| b. Transfers of Cash to Others (Note 20Gc) | (\$1,168,131) |
| 23. Net Appropriations | \$1,345,863 |
| 24. Borrowing from the Public | |
| 25. Repayments on Loans to the Public | |
| 26. Borrowing from the Treasury and the Federal Financing Bank | |
| 27. Repayments on Loans from the Treasury and the Federal Financing Bank | |
| 28. Other Borrowings and Repayments | |
| 29. Net Cash Provided (Used) by Financing Activities | \$1,345,863 |
| 30. Net Cash Provided (Used) by Operating, Investing, and Financing Activities | \$634,938 |
| 31. Fund Balances with Treasury, Cash, and Foreign Currency. Beginning (Note 20Gc) | (\$1,168,131) |
| 32. Fund Balances with Treasury, Cash, and Foreign Currency. Ending | (\$532,193) |
| Supplemental Disclosure of Cash Flow Information: | |
| 33. Total Interest Paid | (\$73) |

Supplemental Schedule of Financing and Investing Activity:

| | |
|---------------------------------------------------------------------|--|
| 34. Property and Equipment Acquired Under Capital Lease Obligations | |
| 35. Property Acquired Under Long-Term Financing Arrangements | |
| 36. Other Exchanges of Noncash Assets or Liabilities | |

Figure 3.5. DBOF Consolidated Statement of Cash Flows - Indirect Method

and “Other Liabilities” (6) adds to the cash balance, and a decrease reduces it. The “Depreciation and Amortization” (7) for the period, which are not paid in cash, require a positive adjustment to the net cash flow from operations. [Ref. 5:p. 28]

“Other Unfunded Expenses,” (8) such as unfunded annual leave, add to the net cash provided by operating activities, since they do not require cash. “Other Adjustments” (9) include the net of the period’s cash transfer transactions, prior period adjustments, and extraordinary items. [Ref. 5:p. 28]

Cash flows from investing activities involve acquiring and disposing of several items including debt or equity instruments, and property, plant and equipment, and other productive assets, i.e., those used in the production of goods and services. Each line is self-explanatory. [Ref. 5:p. 28]

Cash flows from financing activities include obtaining resources in the form of appropriations from Congress, or transfers from other reporting entities; borrowing money, repaying amounts borrowed, or otherwise settling obligations; and obtaining and paying for other resources obtained from creditors on long-term credit. [Ref. 5:p. 29]

Line 30 is the sum of net cash provided (used) by operating, investing, and financing activities. Line 31 is the sum of account balances at the beginning of the fiscal year, and should agree with the amounts reported for those accounts on the prior year’s Statement of Financial Position (prior year Fund Balance with Treasury). Fund balances with Treasury, cash and foreign currency, ending, line 32, is the net of lines 30 and 31.

This amount should agree with the amounts reported for these accounts on the current year's Statement of Financial Position (current year Fund Balance with Treasury). [Ref. 5:p. 29]

When the indirect method is used to prepare the cash flow statement, the amount of interest paid during the period, net of amounts capitalized, are provided in a supplemental disclosure of cash flow information. Information about all investing and financing activities of a reporting entity that affect recognized liabilities during a period, but do not result in cash receipts or payments are, recorded in a supplemental schedule of financing and investing activity. [Ref. 5:pp. 29, 30]

C. SUMMARY

This chapter began with the impact of the CFO Act on federal financial reporting, and what would now be expected of reporting entities in their financial statements. Next, DeCA's two funding accounts were described. The format and content of a federal entity's principal statements were described in detail, with particular description given to those entries peculiar to DeCA's statements.

Chapter IV will study and analyze how good a fit this format is for DeCA's financial reporting, and discuss DeCA's unique role within the federal government.

IV. DeCA'S FINANCIAL REPORTING DILEMMA

A. INTRODUCTION

Chapter III detailed DeCA's current financial reporting format. This chapter will focus on analyzing this format within the context of DeCA's unique operation. This analysis will illustrate DeCA's financial reporting dilemma: the nature of DeCA's operations is misaligned and incongruous with its financial reporting format. The concept of enterprise funds will be introduced, and their relevance will be added to the discussion. And finally, a solution is proposed, and reasons given why DeCA should change its financial reporting.

B. DeCA'S UNIQUE OPERATION AND ENTERPRISE FUNDS

1. DeCA's Unique Operation

DeCA's operation holds a unique position within the Department of Defense, and possibly the federal government. It is probably the only DoD reporting entity whose primary mission is self-sufficient. If there are others in the federal government, they are nowhere near the size and magnitude of DeCA's operation. The Statement of Operations (and Changes in Net Position) for the DBOF account showed DeCA had \$5.5 billion in sales of goods and services. This revenue was then reinvested into more inventory for resale, which is the nature of its DBOF resale stock account. This represents more than 82% of DeCA's total DBOF operation (total expenses). Figuring in the surcharge

collections and expenses (\$272 million collected, \$179 million expenses), operating revenues are almost 85 percent of expenses. Therefore, only 15 percent of DeCA's operation is covered by a yearly appropriation. Although DeCA is unique in the federal government, this type of self-sustaining entity is not unique in governmental accounting. These entities are prominent at the municipal level as nonprofit organizations. A discussion of nonprofit organization accounting is appropriate here.

2. Enterprise Funds

Enterprise funds are one of two principal categories of self-sustaining funds (also called proprietary funds in the governmental arena). Enterprise funds are used to account for resources committed to self-supporting activities of governmental units that render services to the general public on a user-charge basis. Self-sustaining funds, just as the name implies, are reservoirs of resources established to carry on specified activities on a self-sustaining basis. The other self-sustaining fund, internal service funds, account for resources providing services or commodities for other departments of the same governmental unit, and are not applicable here. [Ref. 9:p. 220]

An enterprise fund is created when a governmental unit decides to provide its citizens some basic service. Services may be provided in response to public demand, or because private enterprises are unwilling to provide them. Resources committed to operating hospitals, airports, swimming pools, and golf courses, under an arrangement collecting patient or customer fees services rendered, are examples of enterprise funds.

The significant characteristic that is common to all these activities is that they are financed primarily by fees charged to users based on some measure of usage. [Ref. 9:p.225]

Enterprise funds, like profit enterprises, are required to sustain themselves through their operations. Their accounting systems, then, should be organized like those of profit enterprises. As a result, the accounting procedures for these funds use the full accrual basis of accounting, including a distinction between capital and revenue items and the recognition of depreciation of fixed assets. Generally, they are expected to operate on much the same basis as profit entities furnishing similar services, and provide financial statements comparable to those profit entities. [Ref. 9:p. 224]

C. DeCA FINANCIAL REPORTING MISALIGNMENT

DeCA, therefore, is an enterprise fund that should provide similar financial statements to the private sector. Since DeCA does not, there is a misalignment between its operation and financial reporting. There is evidence of this in both the Statement of Financial Position and Statement of Operations (and Changes in Net Position).

DeCA's financial statements must be segregated and reported by fund type. As would be expected, this provides important information for each fund type, but does not and cannot give the overall financial picture of the organization, i.e., the "big" picture. This is analogous to a pure profit enterprise providing financial statements on each of its functional areas (accounting, marketing, etc.), but not combining them.

OMB does not require that assets and liabilities be divided between current and long-term assets, but instead by transaction type (federal vs. non-federal entity). This is basic financial accounting in the private sector. Current and quick ratios cannot be computed. These would not be important for pure nonprofits, but for DeCA, these ratios are needed for comparability, a subject to be discussed later in the chapter. Further, OMB considers the Fund Balance with Treasury to be an asset, since it represents the entity's claim to the federal government's resources. But Henke [Ref. 9:p. 11] defines a fund balance as equal to the difference between the assets and liabilities, and would appear in the net position section of the Statement of Financial Position.

The DBOF Statement of Operations (and Changes in Net Position) does not include the appropriation amount for the year. Thus, all revenue sources are not listed. The reason is that DBOF is a revolving fund, and is controlled at a higher level within DoD. Those entities that draw on DBOF funds do not include the appropriation on their Statement of Operations. Those amounts are consolidated and the figure is entered for the total DBOF Statement of Operations (and Changes in Net Position). This is a decision made at the DoD Comptroller level, and not made by DeCA. [Ref. 10]

This is another example of inconsistency with basic accounting practices. DeCA provides the appropriation data in its 1995 Annual Report and Almanac, under the title of Commissary Operations Revenue and Expenses (Figure 4.1). DeCA reports the appropriation as affecting Net Operating Result, not as revenue. Regardless as to where

Revenue:**Gross Sales:**

| | |
|----------------------------------------|------------------|
| Operations | \$5,441.1 |
| Capital surcharge | \$0.0 |
| Depreciation except major construction | \$0.0 |
| Major construction depreciation | \$0.0 |
| Total gross sales | <u>\$5,441.1</u> |

Other Income\$38.5**Total Income****\$5,479.6****Expenses:**

| | |
|--------------------------------------------------|------------------|
| Cost of material sold from inventory | \$5,489.5 |
| Negotiated purchases from customers | \$0.0 |
| Transportation | \$173.2 |
| Salaries and wages: | |
| Military personnel | \$28.4 |
| Civilian personnel | <u>\$580.7</u> |
| Total salaries and wages | \$609.1 |
| Materials, supplies and parts used in operations | \$2.5 |
| Facility repair charge | \$0.9 |
| Depreciation - Capital | \$0.2 |
| Contracted engineering services | \$0.0 |
| Lease costs | \$0.0 |
| Purchased utilities | \$8.4 |
| Purchased communications | \$1.7 |
| Equipment maintenance | \$0.1 |
| Fuel | \$0.0 |
| Other expenses | <u>\$277.3</u> |
| Total Expenses | \$6,562.9 |

Work in process adjusted \$0.0

Comp work for activity reten adj \$0.0

Cost of goods sold \$6,562.9**(\$1,083.3)****Operating Result**

| | |
|------------------------------------|-----------------|
| Less capital surcharge reservation | \$0.0 |
| + appropriations affecting NOR/AOR | \$940.1 |
| Other changes affecting NOR/AOR | \$251.6 |
| Inventory gains and losses | <u>(\$52.4)</u> |

Net Operating Result\$56.0

Figure 4.1. Commissary Operations Revenue and Expenses

DeCA applies the appropriation figure in this operations statement, DeCA had to produce a new statement to provide this information to end users. This adds validity to the argument that the current format is impractical.

Even though the format makes it difficult to convey pertinent information, DeCA compounds the statements' usefulness to external users. DeCA provides data in the footnotes that is redundant and/or limited. This is just the opposite of the intent of footnotes.

The footnotes for DBOF (Appendix A) belie a technical compliance on DeCA's part. The notes should "provide supplemental information concerning the data shown on the statements." [Ref 11:p.159] But note two, Fund Balance with Treasury, (page 75) contributes no additional information; it just restates the entries on the Statement of Financial Position.

Note 22, Other Revenues and Financing Sources, is also incomplete. This footnote lists \$251.6 million as "DLA transfer of cash," but does not provide any amplifying information for such a large sum of money. (DLA is the acronym for Defense Logistics Agency.) This transfer did not occur the previous year either. This is an unconventional transaction. In reviewing DLA's cash account, Congress saw an excess of funds, and transferred \$251.6 million to DeCA as part of their annual appropriation. Additional information explaining this transaction would have been warranted here.

DeCA is also required to provide additional information in the footnotes for any

amounts on the following line items: inventory; operating materials and supplies; stockpile materials; seized property; forfeited property; and goods held under price support and stabilization programs. These footnotes are required whatever the amount; materiality is not considered. Additionally, for line items such as cash and other monetary assets, debt, lease liabilities, etc., the footnotes must disclose the components of each and their amounts, again regardless of materiality. Illustrations of these two requirements are Note eight, Inventory, Net (page 76) and Note 15, Property, Plant and Equipment, Net (page 77).

OMB's guidelines for DeCA have produced financial statements that are good for OMB, but not for other users, nor for DeCA's decision makers. FASAB, in its Statement of Federal Financial Accounting Concepts (SFFAC) Number One, "*Objectives of Federal Financial Reporting*," laid out four objectives of federal financial reporting; budgetary integrity, operating performance, stewardship, and systems and control. These objectives were designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability to internal and external users of federal financial reports, (2) provide useful information to internal and external users of federal financial reports, and (3) help internal users of financial information improve the government's management. [Ref. :p. 2 SFFAC1] The FASAB classifies users of financial information into four major groups: citizens, Congress, executives, and program managers.

D. REASONS TO CHANGE TO INDUSTRY REPORTING

To its defense, OMB does allow for a different format. The bulletin states,

The formats and instructions provide a framework within which individual agencies have the flexibility to develop financial statements that provide information useful to the Congress, managers, and the public. The formats and instructions provide guidance for meeting the minimum disclosure requirements for federal financial statements. Agencies should conform their financial statements to the prescribed form and content unless the particular operations or organization of the agency or the program to be reported on warrant a variance. Should a variance be warranted to allow the financial statements to reflect more fully financial operations and conditions, agencies may modify their statement formats to improve disclosure based on the financial reporting practices of similar activities in the private and State and local government sectors, accounting principles promulgated by authoritative standard setting bodies, and other authoritative sources. Modifications that result in noncompliance with the reporting and disclosure requirements contained in the Statements of Federal financial Accounting Standards are not permitted. Agencies should seek OMB approval for any significant modifications.

DeCA's unique operation begs for a different reporting format. Their financial statements should approximate the private sector's statements, particularly those of the grocery industry. The misalignment of the current format is only one reason to change. There are a few other obvious reasons.

One reason is the comparability value for DeCA's financial statements would be improved. In its current reporting, DeCA has consistency with its principal statements, meaning it presents financial data for successive years. DeCA does not have uniformity though, because its financial data cannot be compared to similar entities. If DeCA is unique within DoD and the federal government, then there are no other agencies to

which it can compare. By emulating grocery industry financial reporting, comparability can exist.

A second reason concerns implementation of the Government Performance and Results Act of 1993 (GPRA). The purpose of the Act is to shift the focus of government management from inputs to outputs and outcomes, from process to results, from compliance to performance, and from management control to managerial initiative.

While many DoD agencies grapple with the performance measures required to comply with this legislation, DeCA has the grocery industry standards as its measures of input, workload, efficiency, effectiveness, and outcome. Although DeCA may very well be using these standards, they require further manipulating accounting data. The information cannot be ascertained directly from the statements as they exist now.

Finally, by modifying the accounting format, the external user, and possibly DeCA decision makers, would have access to better information. Since the financial statements would be comparable, the external users could compare DeCA with the grocery industry. This would also comply with the spirit of SFFAC Number One, by providing useful information to internal and external users of federal financial reports. It is assumed that this information is provided to DeCA's decision makers, but this has to be a assumed since the information cannot be derived from the current financial statements.

E. SUMMARY

In this chapter, enterprise funds were introduced and explained. DeCA's accounting operations closely resemble enterprise funds. Accounting and financial reporting for these funds should closely correspond to similar private sector enterprises. DeCA, by following grocery industry standards, would comply with GPRA. It would conform to the grocery industry's performance standards, and would provide more information to decision makers and external users.

The next chapter will introduce revised principal statements which more closely approximate private sector (grocery industry) financial statements. The corresponding changes will be explained.

V. PROPOSED FINANCIAL REPORTING FORMAT

A. INTRODUCTION

The previous chapter made the argument that DeCA's financial reporting and its operations are in conflict. In this chapter, revised statements will be proposed and the changes discussed. Analysis and comparison of the data will come in the next chapter. Only the Statement of Financial Position and Statement of Operations (less the Net Position) have been modified. The Statement of Cash Flows does not require any changes. This statement, as noted in Chapter III, is very similar to private sector cash flow statements.

Both proposed formats borrow heavily from the U.S. General Services Administration's (GSA) financial statements. These statements can be accessed through the GSA's Chief Financial Officer's homepage at www.finance.gsa.gov. Once at the site, scroll down to the highlighted "Financial Information," and click on this text.

B. STATEMENT OF FINANCIAL POSITION

Figure 5.1 is the proposed Statement of Financial Position. It is noticeably shorter than the ones depicted in Figures 3.1 and 3.2, but it contains more information. It is now a consolidated statement of both the DBOF and Surcharge Accounts. Henke [Ref. 9:p. 267] corroborates this consolidation by stating "the annual financial report for a

| | DBOF | Surcharge | Consolidated |
|-------------------------------------------|--------------------|------------------|--------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Accounts Receivable, Net (Note 5) | | | |
| From Other Federal Agencies | \$42,511 | \$1,519 | \$44,030 |
| From the Public | \$85,514 | \$11,675 | \$97,189 |
| Inventories Held for Sale, Net | \$451,590 | | \$451,590 |
| Advances and Prepayments | | | |
| To Other Federal Agencies | | | |
| To the Public | \$974 | | \$974 |
| Fund Balance with Treasury (Note 2) | (\$533,193) | \$411,251 | (\$121,942) |
| Total Current Assets | \$47,396 | \$424,445 | \$471,841 |
| Property and Equipment (Note 15): | | | |
| Military Equipment | \$1,378 | | \$1,378 |
| Equipment | | \$94,796 | \$94,796 |
| Less Accumulated Depreciation | (\$732) | (\$54,820) | (\$55,552) |
| Subtotal | \$646 | \$39,976 | \$40,622 |
| Construction in Progress | | \$195,961 | \$195,961 |
| Total Property and Equipment | \$646 | \$235,937 | \$236,583 |
| Other Assets: | | | |
| Other Entity Assets | \$151,528 | | \$151,528 |
| Total Other Assets | \$151,528 | | \$151,528 |
| TOTAL ASSETS | \$199,570 | \$660,382 | \$859,952 |
| LIABILITIES AND NET POSITION | | | |
| Current Liabilities: | | | |
| Accounts Payable | | | |
| To Other Federal Agencies | \$473,006 | \$42,141 | \$515,147 |
| To the Public | \$495,870 | \$11,842 | \$507,712 |
| Accrued Payroll and Benefits | | | |
| Salaries and Wages | \$11,615 | | \$11,615 |
| Total Current Liabilities | \$980,491 | \$53,983 | \$1,034,474 |
| Long-Term Liabilities: | | | |
| Other Public Liabilities | | | |
| Annual Leave Liability | \$27,172 | | \$27,172 |
| Total Long-Term Liabilities | \$27,172 | | \$27,172 |
| Total Liabilities | \$1,007,663 | \$53,983 | \$1,061,646 |
| Net Position | | | |
| Invested Capital | \$3,323,931 | \$260,594 | \$3,584,525 |
| Cumulative Results of Operations | (\$4,104,852) | \$345,805 | (\$3,759,047) |
| Future Funding Requirements | (\$27,172) | | (\$27,172) |
| Total Net Position | (\$808,093) | \$606,399 | (\$201,694) |
| TOTAL LIABILITIES AND NET POSITION | \$199,570 | \$660,382 | \$859,952 |

Figure 5.1 Proposed Statement of Financial Position

governmental unit should include . . . a combined balance sheet for all funds and account groups”

This proposed Consolidated Statement of Financial Position is shorter because only those line items with non-zero values are included. In their original form, both the DBOF and Surcharge statements each required three full portrait pages. This makes it difficult for users to review and analyze the information. Figures 3.1 and 3.2 used the same exact format, line items, and information as the originals. However, everything was placed in a spreadsheet software program, reduced, and printed in a landscape style so it could be viewed on a single page. The proposed statement’s format provides all the information on one page, which makes it easier for the user.

The proposed statement is subdivided by current and long-term assets and liabilities. Current and quick ratios can now be obtained with this statement. The OMB requirement to separate intragovernmental (federal agencies) and governmental (public) entries is maintained. DeCA had only entity assets, therefore that is all that is reported. Should there ever be any non-entity assets to report (there were none for fiscal years 1995 and 1994), they would have to be separated as well.

It is appropriate at this time to discuss why DeCA does not report cash. The entry is zero for the “Cash and Other Monetary Assets” line item on DeCA’s Statement of Financial Position, because DeCA does not officially hold cash. DoD agencies’ cash is held by the Defense Logistics Agency (DLA) in a combined cash account. Any cash or

monetary assets that DeCA holds belongs to DLA. [Ref 10] Cash is the most current asset available, and DeCA does not operate without it. DeCA should separately account for and report their portion of cash. Without this figure, DeCA's current and quick ratios are adversely affected.

The entries for the property and equipment subdivisions and depreciation were taken directly from note 15. This note is no longer needed. The "Other Assets" or "Other Entity Assets" entry was taken directly from the original statement.

The liabilities section is much the same as assets. The separate reporting requirement is still in effect, and only items that had non-zero entries are listed. The "Long-Term Liabilities" subdivision eliminate the need for note 17. The "Annual Leave Liability" was the only item listed in this note. The Net Position items and entries remained the same as on the original statement. Entries with non-zero values were excluded.

C. STATEMENT OF OPERATIONS

Figure 5.2 is the proposed Consolidated Statements of Operations. For operating statements, Henke [Ref. 9:p. 267] adds "separate combined operating statements for governmental and propriety funds," should be included in a governmental unit's annual financial report. The DBOF and Surcharge operating statements have been consolidated in this proposed statement as well. Although the Surcharge Account is considered a trust

| | | | |
|--------------------------------------------|--|--|--------------|
| Revenues | | | |
| Appropriated Capital Used | | | |
| Revenues from Sales of Goods and Services: | | | |
| To Other Federal Agencies | | | |
| To the Public | | | |
| Other Revenues (Note 22) | | | |
| Total Revenues | | | |
| Cost of Goods Sold: | | | |
| To Other Federal Agencies | | | |
| To the Public | | | |
| Total Cost of Goods Sold | | | |
| Gross Margin | | | 5.48% |
| Expenses | | | |
| Program or Operation Expenses (Note 23) | | | |
| Depreciation and Amortization | | | |
| Bad Debts and Write-Offs | | | |
| Interest (Note 25) | | | |
| Other Expenses (Note 25) | | | |
| Total Expenses | | | |
| Revenues in Excess of Expenses | | | |

| DFOB | Surcharge | Consolidated |
|------------------|------------------|---------------------|
| \$940,100 | | \$940,100 |
| \$150,038 | | \$150,038 |
| \$5,329,558 | | \$5,329,558 |
| \$251,600 | \$271,755 | \$523,355 |
| \$6,671,296 | \$271,755 | \$6,943,051 |
| \$1,785,557 | | \$1,785,557 |
| \$4,777,209 | | \$4,777,209 |
| \$6,562,766 | | \$6,562,766 |
| \$108,530 | \$271,755 | \$380,285 |
| | \$171,629 | \$171,629 |
| \$208 | \$7,098 | \$7,306 |
| \$1,158 | | \$1,158 |
| (\$73) | | (\$73) |
| \$51,238 | | \$51,238 |
| \$52,531 | \$178,727 | \$231,258 |
| \$55,999 | \$93,028 | \$149,027 |

Figure 5.2 Proposed Statement of Operations

und, it is a self-sustaining or proprietary fund, since its revenues are generated as sales are generated.

There are four major differences between the proposed consolidated statement and the original statement. The first major change is the consolidation feature discussed in the previous paragraph. The second difference is that DeCA's appropriation capital is included as revenue on the proposed statement. As discussed in the previous chapter, the DBOF appropriation was included in consolidated statements at a higher level than DeCA. By adding the appropriation in here, DeCA can now recognize all of its revenues.

Subtracting the cost of goods sold from revenues to determine DeCA's gross margin is the third major distinction. This follows the standard format for any private sector income statement. After this, the other expenses are subtracted out to find revenues in excess or shortage of expenses.

The last difference is deleting the Changes in Net Position section. Since appropriation capital is included as a revenue, a corresponding change would occur in the DBOF net position ending balance. The net position ending balance entry should agree with the total net position amount on the Statement of Financial Position (line 7f). This would not happen with the inclusion of the appropriation capital entry. To avoid confusion, the best solution is to omit this section entirely. The statement has accomplished its intention, and manipulating net position amounts is not necessary. The intent is to provide useful information to users of these financial statements.

D. SUMMARY

The proposed statements were introduced in this chapter, and their differences from the original statements were discussed. Now that DeCA's two statements are similar to those for grocery industry, analysis can be conducted to compare DeCA's and the grocery industry's performance. This will be the thrust of the next chapter.

VI. DeCA VS. THE GROCERY INDUSTRY: A COMPARATIVE ANALYSIS

A. INTRODUCTION

In Chapter V, the proposed formats for the Statement of Financial Position and Statement of Operations were introduced, and their differences from the original statements were discussed. The data in the proposed format, corresponding to the grocery industry's format, allows comparisons with grocery chains and the industry as a whole. This chapter will provide that comparative analysis.

The Kroger Co. and Safeway, Inc.'s 1995 financial statements will be utilized in this comparison. Kroger led the grocery industry in 1995 with almost \$24 billion in sales. Safeway was number three with more than \$16 billion in sales. DeCA, with its \$5.4 billion in sales, was ninth. [Ref. 12:p.10]

Robert Morris Associates (RMA), the association of lending and credit risk professionals, publishes the *Annual Statement Studies*. The Statement Studies contain composite financial data on manufacturing, wholesaling, retailing, service, agricultural and contracting lines of business. The financial statements on each industry are shown in common size form, and are accompanied by widely used ratios. [Ref. 13:p.5] Lending institutions use the RMA ratios as one measure for a business applying for a loan. The grocery industry is listed in the RMA Statement Studies as "Retailers-Groceries & Meats." The 1995 edition will be used.

B. RATIO ANALYSIS

Six key ratios will be examined in this analysis. They are the current ratio, quick or acid-test ratio, inventory turnover, days-in-inventory, gross margin, and net income as a percentage of sales. The RMA provides all but one of these industry ratios; net income as a percentage of sales.

1. Current Ratio

Current assets divided by current liabilities is the current ratio. It is a rough indication of a firm's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and the firm's ability to pay them. [Ref. 13:p. 10] The current ratios are provided in Table 6.1.

| DeCA | Kroger | Safeway | RMA |
|--------|--------|---------|---------------|
| 0.46:1 | 0.82:1 | 0.78:1 | 1.6, 1.1, 0.9 |

Table 6.1. Current Ratios.

Before an analysis begins, an explanation of the RMA data is required. For grocery retailers with sales greater than 25 million (the category for all three), RMA has the financial statements of 200 grocery companies. They have calculated the current ratios (as well as the other ratios that they use), selected an upper, median, and lower quartile point, and divided the ratios into four groups, from strongest to weakest. [Ref. 13: p. 9] Twenty-five percent of the companies have a 1.6:1 current ratio or better, 25% have a current ratio between 1.6 and 1.1:1, etc.

DeCA, Kroger, and Safeway fall into the weakest quartile. A ratio less than one

means that all three lack sufficient current assets to cover their current liabilities.

DeCA's ratio is the lowest, but, as reported in the last chapter, it does not report any cash and equivalents. That is done at a higher level within DoD. It would take approximately \$335 million in cash for DeCA's ratio to equal Safeway's ratio.

2. Quick or Acid-Test Ratio

This is a much more rigorous test of an entity's ability to meet its short-term debts. Merchandise inventory and prepaid expenses are excluded from current assets, leaving only cash, cash equivalents, marketable securities, and current receivables. These modified assets are divided by current liabilities. [Ref. 14:p. 845] These ratios are provided in Table 6.2.

| DeCA | Kroger | Safeway | RMA |
|--------|--------|---------|---------------|
| 0.14:1 | 0.11:1 | 0.12:1 | 0.6, 0.3, 0.2 |

Table 6.2. Quick Ratios.

Again, all three fall into the lowest quartile. Inventories are the heavily weighted current asset. This is the nature of the industry. A "strong" quick ratio is 0.6:1 or greater. To operate and generate sales, inventories must be maintained at a constant, high level. Both Kroger and Safeway have more than \$1.0 billion in inventory. DeCA has \$451 million.

The current and quick ratios are low for the grocery industry. One reason is that much of the industry uses drafts to pay bills instead of checks. Drafts are a promise by a company to pay its debt. They are equivalent to a government warrant, and must go

through the Federal Reserve System. This takes time, and time means money. When it is time to pay a west coast creditor, the company will send a draft through an east coast bank, creating a three to four day float. This allows these companies to operate with less cash. The use of drafts and their large inventories are the main reasons these two ratios are low for the grocery industry.

3. Inventory Turnover Ratio and Days-In-Inventory

These two measures are combined since their computation is interrelated. The inventory turnover ratio measures the number of times inventory has been sold during the year. This is a crucial ratio in the grocery industry. It is computed by dividing the cost of goods sold by the average level of inventory on hand. Average inventory is usually computed by taking the average of the beginning and ending inventory figures for the period involved. The number of days taken to sell the entire inventory once is the days-in-inventory period. It is computed by dividing inventory turnover by 365 days. [Ref. 14:p.847] Both inventory turnover ratio and days-in-inventory period are shown in Table 6.3.

| | DeCA | Kroger | Safeway | RMA |
|-----------|-----------|-----------|-----------|-------------|
| Inventory | 16.3 | 11.3 | 10.3 | 22.3, 18.1, |
| Turnover | | | | 13.7 |
| Days-in- | 22.4 Days | 32.3 Days | 35.4 Days | 16, 20, 27 |
| Inventory | | | | Days |

Table 6.3. Inventory Turnover Ratios and Days-In-Inventory Periods.

DeCA is turning its inventory much faster than either Kroger or Safeway; a full ten days faster than Kroger and 13 days faster than Safeway. Industry wide, DeCA is in the third or next to weakest quartile, while Kroger and Safeway are in the weakest quartile.

Grocery stores such as Kroger and Safeway have added more non-food items. These items do not move as fast as food items, but they provide a higher sales margin for the stores. The trend in inventory turn and days-in-inventory has been downward for the grocery industry. If Kroger and Safeway were not moving toward stocking more non-food items, their management would be concerned with these ratios. DeCA, on the other hand, cannot arbitrarily add these non-food items, therefore their ratios should be higher.

4. Gross Margin

Revenues minus cost of goods sold is called gross margin or gross profit. [Ref. 11:p.155] This remainder is then expressed as a percentage of sales. Gross margin is an indicator of profitability and efficiency. Gross margins are shown in Table 6.4.

| DeCA | Kroger | Safeway | RMA |
|--------------|--------|---------|-------|
| 5.5 or 19.6% | 24.4% | 27.2% | 22.4% |

Table 6.4. Gross Margins.

Safeway and Kroger have very strong gross margins. The RMA percentage is taken from the common size income statement. This figure is the average of the 200 company financial statements.

DeCA has two gross margins. The first gross margin, 5.5%, is taken from the proposed Statement of Operation, and is calculated the same as Kroger's or Safeway's margin. The other gross margin will require further explanation, drawing on data provided in Figure four.

DeCA computes its gross margin using two assumptions: DeCA's cost of goods sold equals their actual sales to customers since they sell their groceries at cost; and, since DeCA is a break-even entity (it does not try to make a profit), total sales for figuring gross margin would equal total net operating costs. With those two assumptions (inversing sales and costs), DeCA tries to determine what mark-up would be required to cover the total operating costs. The question is: given the projected grocery sales, what mark-up would be required to cover total operating costs? A numeric presentation is provided as an illustration.

Revenue:**Gross Sales:**

| | |
|----------------------------------------|------------------|
| Operations | \$5,441.1 |
| Capital surcharge | \$0.0 |
| Depreciation except major construction | \$0.0 |
| Major construction depreciation | \$0.0 |
| Total gross sales | <u>\$5,441.1</u> |

| | | |
|---------------------|---------------|------------------|
| Other Income | <u>\$38.5</u> | |
| Total Income | | \$5,479.6 |

Expenses:

| | | |
|--------------------------------------------------|----------------|------------------|
| Cost of material sold from inventory | \$5,489.5 | |
| Negotiated purchases from customers | \$0.0 | |
| Transportation | \$173.2 | |
| Salaries and wages: | | |
| Military personnel | \$28.4 | |
| Civilian personnel | <u>\$580.7</u> | |
| Total salaries and wages | | \$609.1 |
| Materials, supplies and parts used in operations | \$2.5 | |
| Facility repair charge | \$0.9 | |
| Depreciation - Capital | \$0.2 | |
| Contracted engineering services | \$0.0 | |
| Lease costs | \$0.0 | |
| Purchased utilities | \$8.4 | |
| Purchased communications | \$1.7 | |
| Equipment maintenance | \$0.1 | |
| Fuel | \$0.0 | |
| Other expenses | <u>\$277.3</u> | |
| Total Expenses | | \$6,562.9 |

| | | |
|----------------------------------|------------------|--------------------|
| Work in process adjusted | \$0.0 | |
| Comp work for activity reten adj | \$0.0 | |
| Cost of goods sold | <u>\$6,562.9</u> | |
| | | (\$1,083.3) |

Operating Result

| | |
|------------------------------------|----------------------|
| Less capital surcharge reservation | \$0.0 |
| + appropriations affecting NOR/AOR | \$940.1 |
| Other changes affecting NOR/AOR | \$251.6 |
| Inventory gains and losses | <u>(\$52.4)</u> |
| Net Operating Result | <u><u>\$56.0</u></u> |

Figure 4.1. Commissary Operations Revenue and Expenses

| | |
|--------------------------------------------|------------------|
| <u>Costs</u> | <u>FY95</u> |
| DBOF | \$1,072.9 |
| Surcharge | <u>315.1</u> |
| Sub-Total | \$1,388.0 |
| <u>Other Income</u> | |
| DBOF | \$ 38.5 |
| Surcharge | <u>23.0</u> |
| Sub-Total | \$ 61.5 |
| Net Costs (\$1,388.0 - \$61.5) | \$1,326.5 |
| Cost of Goods Sold | <u>\$5,441.1</u> |
| Gross Margin Sales (\$1,326.5 + \$5,441.1) | \$6,767.6 |
| Gross Margin (\$1,326.5/\$6,767.6) | 19.6% |

The DBOF net costs are derived adding all the expenses less the “Cost of material sold from inventory.” (See Figure 4.1. There is a discrepancy of \$500 thousand dollars between the amount shown above {\$1,072.9}, and from the amount computed from Figure 4.1 {\$1,073.4}. The nature of the error could not be determined at the time of writing. Clearly, one figure is off, but the same gross margin percentage is obtained by using either figure.) The surcharge amount is DeCA’s total obligations for the year in that account. “Other Income” is subtracted out to get net costs. Cost of goods sold is equal to Figure 4.1’s total gross sales. Net costs and cost of goods sold are added to get gross margin sales. Gross margin is then computed dividing net costs by gross sales. [Ref. 10]

A large disparity exists between the two gross margins. DeCA has selected a backward theoretical way of computing the gross margin. The logic can be seen in its derivation, but it is exclusive and confusing.

5. Net Income as a Percentage of Sales

This ratio is self-explanatory. The data are provided in Table 6.5.

| DeCA | Kroger | Safeway |
|-------|--------|---------|
| 2.15% | 1.27% | 1.99% |

Table 6.5. Net Income as a Percentage of Sales.

Since DeCA does not pay income taxes, their percentage was computed using “revenues in excess of expenses” from the proposed Statement of Operations, Figure 5.2. It is interesting to see that DeCA’s percentage is comparable to the two grocery stores, despite the fact that DeCA’s and the grocery stores’ motives are in conflict. Safeway and Kroger want this percentage to be as high as possible (while paying the minimum of income taxes); DeCA wants this percentage minimized. RMA does not include this ratio, but does have the average for profit before taxes. This figure is 1.2 percent. Both companies and DeCA are well above this value.

C. OVERALL ANALYSIS

Since grocery stores maintain high inventory levels, the most important ratios in this analysis are Inventory Turnover and Days-In-Inventory. As mentioned previously, Kroger and Safeway have shifted their inventory mix to slower moving, higher profit margin items, which lowers this ratio. Before this shift to slower moving items, an inventory turnover ratio less than 15 was reason for concern. DeCA, with its inventory mix skewed towards food items, has a reasonable inventory turnover ratio. DeCA’s ratios should be higher than the two grocery stores. They stock less of the non-food items,

and since food items are perishable, they are turned at a faster rate.

The comparability within the liquidity ratios (current and quick) is not as good as it could be, since DeCA does not account for cash. If DeCA did account for cash, its current ratio would still be considerably lower than Kroger and Safeway. Although DeCA's current ratio is lower, they do have the luxury of drawing from a revolving fund.

Net income as a percentage of sales is not necessarily the best comparability ratio, but could prove useful for DeCA. The goal here is to get the ratio as close to zero, without going under. Theoretically, DeCA sustains itself through its operations, and draws on the DBOF appropriation for the shortfall. This could then be a "stewardship" ratio.

Gross margin percentage is not a good comparability ratio at all. Using DeCA's derivation, the computation is messy, and cannot be derived from the data on the financial statements. Computing gross margin from the data on the proposed Statement of Operations does not provide a comparable number. DeCA is not looking for a profit, therefore this percentage should be low. How low is another topic altogether.

| | Current | Quick | Inv. Turn | Days/Inv | Gross Mar | N.I. % |
|---------|------------------|------------------|---------------------|--------------------|-----------|--------|
| DeCA | 0.46:1 | 0.14:1 | 16.3 | 22.4 Days | 5.5/19.6% | 2.15% |
| Kroger | 0.82:1 | 0.11:1 | 11.3 | 32.3 Days | 24.4% | 1.27% |
| Safeway | 0.78:1 | 0.12:1 | 10.3 | 35.4 Days | 27.2% | 1.99% |
| RMA | 1.6, 1.1, 0.9 | 0.6, 0.3, 0.2 | 22.3, 18.1, 13.7 | 16, 20, 27 Days | 22.4% | N/A |

Table 6.6. Summary Comparison

Table 6.6 is a summary of the comparison data discussed throughout this chapter.

Some preliminary conclusions:

- Even with the new statement formats, it is difficult to compare DeCA with the grocery industry.
- DeCA's inventory turn appears healthy for a grocery store with its mix of food/non-food items.
- It is imperative that DeCA account for its cash so that an accurate current ratio can be calculated. This ratio would still be low with cash included, and could be a precursor of a serious cash flow problem.

D. SUMMARY

Although DeCA is a grocery chain, and the format of its statements have been rearranged to facilitate comparison with other grocery chains, this comparative analysis was limited. The government entity aspect of DeCA remains a hurdle to further comparison. In the concluding chapter, recommendations from this research will be given, and areas for further research will be discussed.

VII. CONCLUSION

A. INTRODUCTION

Chapter VI compared DeCA to two grocery stores and the grocery industry. An analysis of the comparison and preliminary conclusions were also included. Now that the statement and comparative analysis has been completed, this chapter will provide recommendations from this research. Areas for further research will also be discussed in the chapter also. Further research is important. The initial research question could not be answered because of the limiting nature of DeCA's financial statements.

B. RECOMMENDATIONS

DeCA should publish financial statements with the external user in mind. Corporations are required to provide financial statements that their stockholders can understand, and DeCA should subscribe to this rule. This will ensure that DeCA complies with the spirit of the CFO Act and the SFFAS's and SFFAC's published by FASAB. DeCA's current statements are presented in a format which satisfies OMB, but no other external user. There are many DeCA stakeholders other than OMB.

DeCA should publish financial statements as comparable to the grocery industry as possible. The closer the better. This will require waivers from OMB, but these should be pursued. Currently DeCA's statements cannot be compared to those of any other government or private entity. This defeats one of the purposes of financial reporting.

If waivers are not granted by OMB to facilitate comparability, DeCA should report financial statements in both formats. The philosophy should be to provide more information rather than less. This may be the only way to resolve the reporting conflict.

Lastly, since financial reporting reflects the accounting systems in place, DeCA's accounting systems should also be evaluated. This could be the very crux of the problem. If DeCA's operation and accounting system are also in conflict, a strong case could be made to change to accounting systems closely aligned to the grocery industry. Compatible financial reporting would be an end result of this change.

C. AREAS FOR FURTHER RESEARCH

OMB Circular Number A-76 states,

In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs.

DeCA has come under increased scrutiny because of its competition with the grocery industry. It has successfully fought off any attempts to privatize its operations by showing that the commissaries are run efficiently, and the private sector could not run the commissaries any more efficiently.

That is not the debate any longer. Now the debate centers on eliminating the CONUS commissaries altogether. The advances in information technology now make it possible for authorized commissary patrons to go to their local grocery store, buy their

food, show proof they are a military member, dependent, or retiree, and have a predetermined discount deducted from their purchase.

Further research would require:

- determining total savings (costs not incurred) by the eliminating DeCA's CONUS operation.
- determining any additional costs for DeCA's overseas operations from eliminating the CONUS operation.
- determining the cost of contracting with grocery stores throughout the country to provide this service.
- determining the overall cost of providing the service in this manner and comparing this cost with current DeCA operating costs.
- conducting surveys of commissary patrons to determine if there is a preference between shopping at commissaries or shopping at regular grocery stores with a 20 to 25 percent discount.

All of these areas would need research in order to find the best service for the best price for military members. This is a quality of life issue and requires a thorough analysis so that this benefit is maintained at the lowest possible cost to the taxpayers.

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APPENDIX

DEFENSE COMMISSARY AGENCY DEFENSE BUSINESS OPERATIONS FUND FOOTNOTES TO THE CONSOLIDATED PRINCIPAL STATEMENTS AS 30 SEPTEMBER 1995 (IN THOUSANDS)

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers Act. They have been prepared from the financial records of the Department in accordance with DoD accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity:

DeCA Headquarters maintains overall program and fund control for funds distribution and execution reporting. The Headquarters staff issues fund targets to the six CONUS commissary regions and to the European region.

Centralized accounting support for the CONUS regions. Headquarters and service centers is provided by the Defense Finance and Accounting Service (DFAS-CO) at Columbus, Ohio. The Defense Business Management System (DBMS) is used at DFAS-CO to account for DBOF Commissary Operations. DBOF Commissary Resale Stocks are accounted for using the Standard Finance System (STANFINS). CONUS region liaison offices interface with DFAS for payroll matters and other accounting requirements.

Centralized accounting support for the European Region is provided by the 266 Theatre Finance Command, at the Subsistence Finance and Accounting Office in Germany. STANFINS is used for all DeCA accounting activity in Europe.

Effective October 1994, DFAS-CO assumed full responsibility for the preparation and submission of agency-level reports for DeCA. Both centralized accounting support offices provide accounting reports to the Agency Reporting Division (DFAS-CO-AC), where they are consolidated and submitted to the Departmental Accounting Office at DFAS-Indianapolis Center.

Footnotes

In CONUS, resource management personnel in region liaison offices input operations and surcharge-funded commitments, obligations and expenses into the DBMS system over dedicated communication lines. Supporting documents are forwarded to DFAS-CO, while copies are also retained at the regions. The regions also perform reviews of unliquidated obligations.

Obligations and receipts for subsistence delivery orders are generated simultaneously and forwarded electronically each business day from the commissaries into a computer located at DeCA's Operations Support Center (OSC). The data is loaded in the Standard Automated Voucher Examination System (SAVES) where the accounting transactions are produced. A SAVES transaction file is transmitted to the computer center at Columbus, and interfaced into the Automated System for Army Commissaries (ASAC) and STANFINS. Supporting documents are retained at the commissaries and DFAS-CO East and West Service Centers.

Milstrip requisitions are issued for resale subsistence and troop issue subsistence. The requisition data is transmitted electronically from the commissary or CDC to the OSC computer. Each workday the OSC computer passes a transaction file to Columbus, where the obligations are interfaced into ASAC and STANFINS.

The OSC was provisionally established December 4, 1994. The center provides direct operational support to commissaries, regions and zone managers. Its functional elements include contracting, accounting, transportation, marketing, logistics and information operations. The OSC is organized into multi-functional business units (teams) around major business processes. The OSC performs resource management functions related to CONUS stock fund bill paying and reconciliation efforts between CONUS stock fund inventory supply and financial records. The OSC has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes overseeing the processing from acceptance to redemption, accounting for redemptions and losses and processing documentation to return the cash to the resale stock fund. The Marketing Business Unit (MBU), which is part of the OSC, was formed in 1994. It addresses and resolves operational issues spanning to monitoring the Electronic Data Interface, contracting for brand name resale products, merchandising at national levels, cataloging, electronic pricing and other store-level support operations.

The DFAS-CO East and West Service Centers generate payment vouchers for resale commercial accounts. The voucher and check-producing information is passed electronically from the OSC computer to DFAS-CO, where checks or EFT payments are produced and forwarded to vendors and accounting records are updated. DFAS-CO service centers retain documents to support vendor payments. DFAS-CO provides check numbers to the service centers to update the SAVES automated bill registers.

Due to a reengineering change, DeCA has assumed the acquisition and distribution functions of the Defense Personnel Support Center (DPSC) in support of commissaries, except for fresh fruits and vegetables and off-shore acquisitions. Contracts for specific meats, bread and dairy products are now awarded by DeCA. Requisitions for semi-perishable and perishable brand name products overseas are being supported by the DeCA Interim Business System (DIBS) and DeCA Overseas Ordering and Receiving System (DOORS). The perishables distribution center in Europe, which was used to contain DPSC wholesale stock, is now used to contain DeCA retail stock.

Collections affect all three funds provided DeCA to operate the commissaries. Daily commissary sales receipts and surcharge collections (5 percent added to sales prices at checkout) are deposited into the Commissary Resale Stocks and Commissary Surcharge Collections accounts respectively. The face value of merchandise coupon redemptions are deposited into DBOF Resale Stocks; reimbursement for coupon handling goes into the DBOF Commissary Operations account. ?

C. Accounting Standards:

These statements are presented in accordance with the DoD Guidance on Form and Content of Financial Statements for FY 1994 and FY 1995 Financial Activity. This guidance incorporated revisions to FY 1993/1994 guidance on form and content together with the provisions of Office of Management and Budget (OMB) Bulletin 94-01 of November 16, 1993, "Form and Content of Agency Financial Statements."

Interim guidance on applied accounting standards have been recommended by the Federal Accounting Standards Advisory Board (FASAB). The FASAB was established to recommend accounting standards to the Secretary of the Treasury, Director of the OMB and Comptroller General.

D. Budget and Budgetary Accounting:

Budget authority is received on the DD Form 1105R Apportionment and Reapportionment Schedule. For resale stocks, obligations may be incurred up to the amount of revenues generated by sales to customers. For commissary operations, budget authority is apportioned on the DD Form 1105R, based on a percentage of projected store sales.

Both funds operate subject to the provisions of 31 USC 1517, relevant sections of 10 USC and DoD 1330.17-R.

Footnotes

E. Basis of Accounting:

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting/reporting is performed in compliance with OMB requirements.

F. Revenues and Other Financing Sources:

Resale Stock revenues are generated from the sale of inventory items to authorized commissary patrons on either a cash or charge sale basis. These inventory items consist of grocery, meat, produce, troop issue and war reserve. Revenues are recognized at the point of sale.

G. Restatement of Prior Year Principal Statements:

The Statement of Financial Position, Statement of Operations (and Changes in Net Position) and the Statement of Cash Flows for FY 1994 have been restated to permit the preparation of comparative statements due to significant changes in reporting requirements given by the Office of Management and Budget. As referenced in the DoD Deputy Chief Financial Officer memorandum dated March 22, 1995, subject "Audited Financial Statements", the requirement for preparation of the Statement of Budgetary Resources and Actual Expenses has been eliminated and is omitted from the submitted statements.

H. Accrued Leave:

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balance for annual leave at the end of the fiscal year reflects current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

I. Property and Equipment:

Under Construction, improvements over \$50,000 are carried as Construction in Progress. Upon completion, the improvement is turned over to military installation

Note 2 Fund Balances with Treasury:**A. Business Operations Fund (DoD Comptroller) and All Other Funds and Accounts:**

| | Entity Assets | | | | |
|-----------------------------------|----------------|-------------------------|----------------------------|------------------------|-------|
| | Trust Funds | Revolv- ing Funds | Appro- priated Funds | Other Fund Types | Total |
| Unobligated Balance Available: | | | | | |
| Available | | | | | |
| Restricted | 0 | 0 | 0 | 0 | 0 |
| Reserve For Anticipated Resources | 0 | 0 | 0 | 0 | 0 |
| Obligated (but not expenses) | 0 | 0 | 0 | 0 | 0 |
| Unfunded Contract Authority | 0 | 0 | 0 | 0 | 0 |
| Unused Borrowing Authority | 0 | 0 | 0 | 0 | 0 |
| Treasury Balance | 0 | 0 | 0 | 0 | 0 |

B. Business Operations Fund Activities Below DoD Comptroller Level:

| | Entity Assets | |
|-------------------------------|--------------------|--------------------|
| | Funds Collected | Funds Disbursed |
| Beginning Balance | 0 | 0 |
| Transfers of Cash to Others | 0 | 0 |
| Transfers of Cash from Others | 0 | 0 |
| Funds Collected | 5,526,404 | 0 |
| Funds Disbursed | 0 | 6,488,929 |
| Ending Balance | 5,526,404 | 6,488,929 |

C. Business Operations Fund Activities and All Other Funds and Accounts:

| | NonEntity Assets | |
|-------------------|--------------------|--------------------|
| | Funds Collected | Funds Disbursed |
| Beginning Balance | 0 | 0 |
| Funds Collected | 0 | 0 |
| Funds Disbursed | 0 | 0 |

Footnotes

Note 5. Accounts Receivable:

| | (1) Gross Amount Due | (2) Allowance For Estimated Uncollectibles | (3) Allowance Method Used | (4) Net Amount Due |
|-----------------------------------|-------------------------------|-----------------------------------------------------|------------------------------------|-----------------------------|
| A. Entity Receivables: | | | | |
| Intragovernmental | 42,677 | | 166 | |
| | 42,511 | | | |
| Governmental | 86,505 | 991 | 2%, 10% | 85,514 |
| B. Non-Entity Receivables: | | | | |
| Intragovernmental | 0 | 0 | | 0 |
| Governmental | 0 | 0 | | 0 |

C. Other Information: Allowance was based upon 2% of the dollar amount of public receivables over 180 days delinquent for 5J00. For 5K00, the method used to calculate the allowance for uncollectible receivables was derived by taking 10 percent of receivables over 180 days old.

Note 8. Inventory, Net:

| | (1) Inventory Amount | (2) Allowance for Losses | (3) Inventory, Net | (4) Valuation Method |
|-------------------------------------------|----------------------------|--------------------------------|--------------------------|----------------------------|
| A. Inventory Categories: | | | | |
| (1) Held for Current Sale | 451,590 | 0 | 451,590 | a |
| (2) Held in Reserve for Future Sale | 0 | 0 | 0 | ----- |
| (3) Excess, Obsolete and Unserviceable | 0 | 0 | 0 | ----- |
| (4) Held for Repair | 0 | 0 | 0 | ----- |
| Total | 451,590 | 0 | 451,590 | |

B. Restrictions on Inventory Use, Sale, or Disposition:

C. Other Information: Inventory held for current sale includes inventory in transit.

Note 15. Property, Plant and Equipment, Net:

| | (1) Depreci- ation Method* | (2) Net Service Life* | (3) Acquisition Value | (4) Accumulated Depreciation | (5) Book Value |
|--------------------------------------------------------|-------------------------------------|--------------------------------|-----------------------------|------------------------------------|----------------------|
| Classes of Fixed Assets | | | | | |
| A. Land | | | | | |
| B. Structures, Facilities, & Leasehold Improvements | 0 | | 0 | 0 | 0 |
| C. Military Equipment | SL | 1-5 | 1,378 | 732 | 646 |
| D. ADP Software | ----- | ----- | 0 | 0 | 0 |
| E. Equipment | ----- | ----- | 0 | 0 | 0 |
| F. Assets Under Capital Lease | ----- | ----- | 0 | 0 | 0 |
| G. Other | ----- | ----- | 0 | 0 | 0 |
| H. Natural Resources | ----- | ----- | 0 | 0 | 0 |
| I. Construction in Progress | ----- | ----- | 0 | 0 | 0 |
| Total | | | 1,378 | 732 | 646 |

J. Other Information:

The General Accounting Office has determined that real property used by the DBOF, but under the jurisdiction of the Military Departments, represents an asset of the DBOF and such property should be reported on the financial statements as a non entity asset to show the full costs of all resources and assets used under DBOF operations.
Depreciation is calculated by the Straight Line Method.

* Keys:

Depreciation Methods

| | |
|------------------------------------------|------------------------|
| SL - Straight Line | Range of service Life |
| DD - Double-Declining Balance | 1-5 - 1 to 5 years |
| SY - Sum of the Years' Digits | 6-10 - 6 to 10 years |
| IN - Interest (sinking fund) | 11-20 - 11 to 20 years |
| PR - Production (activity or use method) | >20 - Over 20 years |
| OT - Other (describe) | |

Footnotes

Note 17. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

| | Non- Current Liab. | Current Liab. | Total |
|----------------------|--------------------------|------------------|-------|
| 1. Intragovernmental | | | |
| (1) _____ | 0 | 0 | 0 |
| (2) _____ | 0 | 0 | 0 |
| (3) _____ | 0 | 0 | 0 |
| Total | 0 | 0 | 0 |
| | Non- Current Liab. | Current Liab. | Total |
| 2. Governmental | | | |
| (1) _____ | 0 | 0 | 0 |
| (2) _____ | 0 | 0 | 0 |
| (3) _____ | 0 | 0 | 0 |
| Total | 0 | 0 | 0 |

B. Other Information:

C. Other Liabilities Not Covered by Budgetary Resources:

| | Non- Current Liab. | Current Liab. | Total |
|------------------------|--------------------------|------------------|--------|
| 1. Intragovernmental | | | |
| (1) _____ | 0 | 0 | 0 |
| (2) _____ | 0 | 0 | 0 |
| (3) _____ | 0 | 0 | 0 |
| Total | 0 | 0 | 0 |
| | Non- Current Liab. | Current Liab. | Total |
| 2. Governmental | | | |
| (1) Annual Leave _____ | 27,172 | 0 | 27,172 |
| (2) _____ | 0 | 0 | 0 |
| (3) _____ | 0 | 0 | 0 |
| Total | 27,172 | 0 | 27,172 |

Note 20. Net Position:

| | Revolving Funds | Trust Funds | Appropriated Funds | Total |
|----------------------------------------|--------------------|----------------|-----------------------|-------------|
| A. Unexpended Appropriations: | ----- | ----- | ----- | ----- |
| (1) Unobligated, | | | | |
| a. Available | 0 | 0 | 0 | 0 |
| b. Unavailable | 0 | 0 | 0 | 0 |
| (2) Undelivered Orders | 0 | 0 | 0 | 0 |
| B. Invested Capital | 3,146,199 | 0 | 177,732 | 3,323,931 |
| C. Cumulative Results of Operations | (4,356,452) | 0 | 251,600 | (4,104,852) |
| D. Other | 0 | 0 | | 0 |
| E. Future Funding Requirements | (27,172) | 0 | 0 | (27,172) |
| F. Total | (1,237,425) | 0 | 429,332 | (808,093) |

G. Other Information: Invested capital includes assets capitalized and cumulative funds that have been transferred to Treasury. b) 7b Invested Capital and 7c Cum Results of Operations 1995 compared to 1994 show large increases. Prior year statements have reported current year amounts only, cumulative amounts were not reported. 1995 statements reflect cumulative amounts. c) The 1995 CFO amount for 22b and 31 on Statement of Cash Flows reflects the 1994 CFO balance carried forward. Changes in Net Position Part II, 1D4 of the September 1995, 1307 reflects a balance of 2,513,331 which includes the 1994 amount of 1,172,532 and the D1 beginning of Fiscal Year balance of 1,340,799. The 1307 total for Changes in Net Position Line 1D6 is correct.

Note 22. Other Revenues and Financing Sources:

| | 1995 | 1994 |
|------------------------------------------|---------|------|
| A. Other Revenues and Financing Sources: | | |
| (1) DLA transfer of cash _____ | 251,600 | 0 |
| (2) Discounts Earned _____ | 0 | 28 |
| (3) _____ | 0 | 0 |
| Total | 251,600 | 28 |

Footnotes

Note 24. Cost of Goods and Services Sold:

A. Cost of Services Sold:

| | |
|--------------------------------------------------|-----------|
| (1) Beginning Work-in-Process | 0 |
| (2) Plus: Operating Expenses | 1,073,282 |
| (3) Minus: Ending Work-in-Process | 0 |
| (4) Minus: Completed Work for Activity Retention | <u>0</u> |
| Cost of Services Sold | 1,073,282 |

B. Cost of Material Sold from Inventory:

| | |
|--------------------------------------------------------|-----------|
| (1) Beginning Inventory L.A.C. | 574,683 |
| (a) Plus: Purchases at Cost | 5,390,332 |
| (b) Less: Beginning Allowance for Holding Gains/Losses | 0 |
| (c) Plus: Inventory Gains | 765,779 |
| (d) Minus: Inventory Losses | 789,720 |
| (2) Less: Ending Inventory L.A.C. | 451,590 |
| Plus: Ending Allowance for Holding Gains/Losses | 0 |
| (3) Plus Operating Expenses | <u>0</u> |
| Cost of Goods Sold | 5,489,484 |

C. Other Information: "Inventory losses" includes prior period adjustments to inventory balances. "Inventory gains" includes transfers-in of inventory for current year.

Note 25. Other Expenses:

| | 1995 | 1994 |
|----------------------|----------------|----------|
| A. Other Expenses: | | |
| (1) Inventory Losses | 784,240 | 0 |
| (2) Other Losses | 7,073 | 0 |
| (3) Interest Expense | (73) | (64) |
| less: | | |
| (3) Inventory Gains | <u>740,075</u> | <u>0</u> |
| Total | 51,165 | (64) |

B. Other Information:

Note 27. Prior Period Adjustments:**A. Prior Period Adjustments:**

| | |
|----------------------------------------|--------------|
| (1) Adjustment to Inventory Losses (-) | 5,479 |
| (2) Assets Capitalized (+) | 615,536 |
| (3) Funds (Cash) Transferred (-) | 442,705 |
| (4) Expense Adjustment | <u>2,637</u> |
| Total | 169,989 |

B. Other Information:

Assets Capitalized includes amounts transferred in from prior period that were not reported on the previously issued statements. Funds (Cash) Transferred includes \$409,764 (000) of funds transferred to Treasury that were not reported on the previously issued statements and \$32,941 (000) that was reported last year on the Statement of Financial Position, Line 7D "Other".

**Note 28. Non-Operating Changes
(Transfers and Donations):**

| | 1995 | 1994 |
|--------------------------------------------------|-------------|-----------|
| A. Increases: | | |
| (1) Transfers-In: | | |
| (a) <u>Prior Year RPM</u> | 1,881 | 0 |
| (b) <u>Advance</u> | 117 | 0 |
| (c) <u>Net Capital Equipment</u> | (326) | 0 |
| (2) Donations Received | 0 | 0 |
| (3) Other Increases | <u>5</u> | <u>0</u> |
| (4) Total Increases | 1,677 | 0 |
| B. Decreases: | 1995 | 1994 |
| (1) Transfers-Out: | | |
| (a) Funds with Treasury PY | (1,172,532) | (922,019) |
| (b) Approp Funds Rec'd-Cash | | |
| Allocations Europe GLAC | (177,732) | 18,707 |
| 1013, is the Source for 1995 amount | 0 | 0 |
| (c) Equity Transfers w/out Reimb | 0 | 658 |
| (2) Donations | 0 | 0 |
| (3) Other Decreases | <u>0</u> | <u>0</u> |
| (4) Total Decreases | (1,350,264) | (902,654) |
| C. Net Non-Operating Changes (Transfers): | 1,348,587 | 902,654 |

Footnotes

Note 30. Other Disclosures:

UNMATCHED DISBURSEMENTS, NEGATIVE UNLIQUIDATED OBLIGATIONS, AND AGED

DISBURSEMENTS ~~IN-TRANSIT~~

| | September 1994 | September 1995 | Dollar Change | Percent Change |
|--------------------------------------|-------------------|-------------------|------------------|-------------------|
| Unmatched Disbursements | Not Available | 0 | ----- | ----- |
| Negative Unliquidated Obligations | Not Available | 34,588 | ----- | ----- |
| Aged In-Transit Disbursements | Not Available | 0 | ----- | ----- |
| TOTALS | Not Available | 34,588 | ----- | ----- |

Footnotes 3,4,6,7,9,10,11,12,13,14,18,19,21,23, 26, and 29 are not applicable to the
Certified Financial Statements for Defense Commissary Agency.

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